CMHC MORTGAGE MARKET

TRENDS

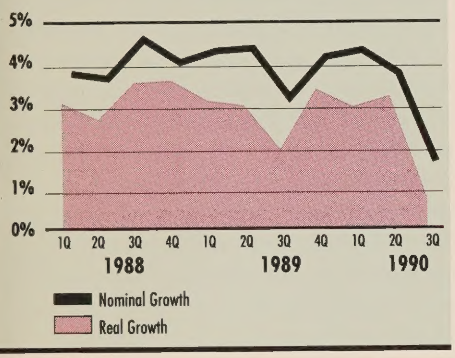
MARKET ANALYSIS CENTRE
JANUARY 1991

MORTGAGE LENDING

MORTGAGE CREDIT GROWTH DECLINED SHARPLY IN THE THIRD QUARTER OF 1990

Residential mortgage credit growth continued to weaken in the third quarter in response to a further drop in economic activity. Mortgage credit will remain soft for the next several quarters as a result of continued weakness in the housing sector.

Residential Mortgage Credit Growth Nominal and Real *(from previous quarter)*



Source: Bank of Canada

Market Share of Residential Mortgage Credit

	3Q89	2Q90	3Q90
Banks	51.4%	52.5%	52.7%
Trust	39.8%	38.8%	38.5%
Life	8.2%	8.2%	8.3%
Sales & Loan	0.5%	0.5%	0.6%

Source: Bank of Canada

Mortgage credit growth outstanding, excluding Credit Unions, Pension Funds and other small financial institutions, increased by only 1.8 per cent in the third quarter of 1990, a significant decline from the 3.9 per cent observed in the previous quarter. This is the first time since the first quarter of 1985 that mortgage credit growth was under two per cent. The total amount of residential mortgage lending, after adjusting for inflation, grew by only 0.7 per cent in the third quarter of 1990 after growing by 3.2 per cent in the second quarter. Similar to the current dollar value, mortgage credit adjusted for inflation recorded its weakest growth since the first quarter of 1985, when it advanced by only 0.7 per cent.

As expected, the slowdown in housing activity observed since the beginning of the year, largely due to high interest rates, contributed to the sharp slowdown in mortgage credit growth during the third quarter. Despite the 50 basis points decline in mortgage interest rates to 13.75 per cent during the third quarter, they are still approximately 100 to 150 basis points above their 1989 average levels. Mortgage interest rates dropped an additional 100 basis points by the beginning of December to 12.75 per cent. At current levels, mortgage rates are still too high to stimulate the demand for housing, particularly with unemployment climbing and consumer confidence very low. The Conference Board of Canada's Consumer Confidence Index fell sharply during the year to a level of 72.5 (1961=100) in the third quarter of 1990. This represents a substantial deterioration since the fourth quarter of 1989 when the Index stood at 99.6. Analysis shows that on average, Consumer Confidence Index fluctuations leads mortgage credit growth by one quarter.

Growth in mortgage credit outstanding is expected to be weak over the next two or three quarters. Even if interest rates drop sharply in the first half of 1991, it will take several quarters before seeing a substantial improvement in mortgage lending activity. First, housing starts and sales of existing housing are expected to remain soft during the first half of 1991. Second, average house prices will post only moderate increases during the second half of the year in response to weak demand and high inventories.

As in the last two quarters, the slowdown in the residential mortgage market was more pronounced for the Trust Companies than the Chartered Banks (see table). From a year ago, the Chartered Banks have increased their market share by 1.3 per cent to 52.7 per cent of total mortgage loans outstanding while the Trust Companies market share declined by the same amount to stand at 38.5 per cent in the third quarter of 1990.

NHA 6108 1Q/91
CMHC SCHL
Helping to house Canadians
Canada

THE PROPOSED FEDERAL TRUST AND LOAN COMPANIES ACT: MORTGAGE MARKET PERSPECTIVE

MAIN OBJECTIVES OF THE LEGISLATION

The Federal government recently proposed legislation to reform federal financial institutions and tabled a New Federal Trust and Loan Companies Act (Bill C-83) in the House of Commons last September. The board objectives of the proposed reform, as outlined by the Minister of State for Finance, are to:

- benefit consumers by increasing competition and the variety of services offered by financial institutions;
- enhance protection for depositors and policyholders;
- strengthen the ability of Canadian financial institutions to compete at home and abroad; and
- lay the groundwork for discussions with the provinces on harmonization.

The proposed legislation attempts to encourage competition by allowing all federally regulated financial institutions "to diversify beyond their traditional areas of business" in order to increase consumer benefit and convenience. To realize these goals the new legislation in effect removes most of the existing restrictions on financial institutions from competing with one another. The proposed legislation allows:

- banks to own trust and loan companies;
- banks and trust and loan companies to own insurance companies;
- insurance companies to own trust and loan companies;
- any widely-held regulated financial institutions to own Schedule II banks.

Using such ownership rights, chartered banks and trust companies, for instance, could compete in the insurance business through their subsidiaries, though there is a restriction on retailing insurance in their deposit taking branches. Similarly, with some restrictions, trust and insurance companies will have commercial and consumer lending powers as banks.

In order to strengthen protection for depositors and policyholders, the new legislation proposes "tougher self-dealing rules and new networking regulations". The rules include supervised restrictions on services and assets transactions, including real estate, between related parties. This covers loans and investments as well. This is meant to safeguard customers against self-dealing and conflict of interest.

... as long as financial institutions compete across market boundaries, consumers will benefit both in terms of choice of instruments and convenience for required financial services.

Given the regulatory variation between federally and provincially based financial institutions, the new proposal also aims to harmonize the rules governing operations of both types of institutions. This will be achieved by enhancing compatibility and reducing duplication of regulatory and supervisory framework at both levels of government.

IMPACTS OF THE LEGISLATION ON THE MORTGAGE MARKET

It is true that as long as financial institutions compete across market boundaries, consumers will benefit both in terms of choice of instruments and convenience for required financial services. The proposed networking provision will enable customers to acquire a range of financial services through a single intermediary. Immediate consumer benefit in the form of lower rates for such services, however, cannot be predicted as it depends on how the networking operation enhances economies of scale and efficiency and to what extent the cost of technology to run such networking offsets such possible gains.

In terms of mortgage market activity, the proposed reform should have some impact on availability of credit (loanable funds), choice of lending institutions for consumers and, to a lesser extent, on mortgage credit rates. As the functional specialization of financial institutions becomes less apparent, the number of potential mortgage lender institutions will increase. This may help create a more convenient operation of market transactions but may also attract less specialized lenders with less market information to offer. This could have an impact on the ability of consumers to make informed decisions. The cost of the trade-off between convenience and specialization to the mortgage market activity is going to be a question of interest at least until the market forces 'settle' the issue in time.

The proposed legislation removes the commercial lending restriction of trust companies. This would create competition between residential mortgage loans and commercial loans for a given capital available from trust companies. Unless consumer and commercial lending rates are equal, the available funds for mortgage lending may be reduced. If they are equal, excluding credit risk considerations, it would have no impact on the availability of funds due to profit margin differentials. However, enhanced networking might lead to efficient cash portfolio management which would probably increase available loanable funds.

The impact of the legislation on mortgage rates will not depend on the number of institutions involved in the business. The rate of mortgage credit

continued on page 6

CANADIAN HOUSING FINANCE CONFERENCE

On October 31 and November 1, 1990 the first Canadian Housing Finance Conference was held in Toronto to address the pressing need for increased affordable and accessible housing in Canada.

The Federal Minister of Sate for Housing brought together more than 150 Canadian and international experts from business, financial institutions, academia, philanthropic organizations, government and industry associations to explore possible new and innovative means of financing Canadian housing. The conference focussed on three key areas. These included the potential applicability in the Canadian context, of foreign housing finance mechanisms or systems which have proven effective in other countries, the feasibility of domestically-generated innovative approaches, and the notion of public and private partnerships as a means of effectively addressing the issues of housing affordability and accessibility.

Three papers focussing on the three topics were prepared for the conference. The first titled 'The Applicability Potential of Foreign Housing Finance Mechanisms in Canada' reviewed housing finance systems in other industrialized countries. This paper focussed on the theoretical underpinnings of the housing finance mechanism, the institutional mechanisms, the role of government, the mortgage instruments, the factors for a housing finance system to be successful, and finally Canada's housing finance system in the international context. The findings suggest that Canada stands out as one of the countries with a relatively efficient and effective housing finance system. Of all industrialised countries its system is most integrated into the financial system and financial markets generally.

The second paper, titled 'Feasibility and Implementation of New Housing Finance Ideas in Canada' reviewed recent proposals designed to solve a number of problems facing homebuyers in the 1990's. The pros and cons of five broad initiatives that have been proposed to improve accessibility were reviewed. These initiatives included: modifying NHA insurance to allow 95 per cent loan-to-value ratios; expanding the sources of mortgage finance, by (i) allowing buyers access to their RRSP funds, (ii) accelerating the pace of securitization, and (iii) promoting equity-sharing arrangements with non-occupant investors; promoting new mortgage instruments, such as adjustable rate mortgages(ARM's), index-linked mortgages (ILM's), and mortgages with renewal protection; devising institutional means to (i) insulate the mortgage market from fluctuations in the money and capital markets, or (ii) meet housing finance needs through contract savings, or (iii) allow the federal government to borrow on behalf of Canadians seeking housing finance; and explore the possibility of land-leasing and lease-to-purchase as a means of reducing cost barriers. While each proposal has both strengths and weaknesses the author feels there is no panacea for housing accessibility problems, but a number of initiatives are promising.* These include mortgage-backed securities (MBS), allowing first-time buyers to use their RRSP funds for downpayment, an average interest rate concept, and index linked mortgages (ILM's).

Canada stands out as one of the countries with a relatively efficient and effective housing finance system.

The third paper titled 'Corporate Sponsorship of Housing' addresses the role corporations can play in providing housing assistance through public-private partnerships. According to the author, public-private housing partnerships are a promising new approach to developing, financing and operating housing for low- and moderate-income households. Housing partnerships can take many forms - ranging from a private housing developer entering a joint venture with a church to build a retirement home, to legal partnerships of non-profit developers and private investors operating under an incorporated organization with a staff and a board of directors. The purpose of reviewing this area was to increase awareness of corporate philanthropy and of the possibilities for corporate philanthropy and corporate sponsorship of housing. The paper provides background, data and references on this subject.

** Future issues of Mortgage Market Trends will address these initiatives.*

THE SAVINGS AND LOAN CRISIS IN THE UNITED STATES: WHAT CAN WE LEARN FROM IT?

The Savings and Loan (S & L) crisis occurring in the U.S. is worrisome for Canada as our economies are closely integrated. The financial problems of the S & L's affect not only housing finance there but also the entire economy as the stability of the banking system is in question.

A natural question arises concerning whether the same events can occur in Canada, consequently posing a threat to the financial system here. This issue is particularly relevant in the context of the proposed restructuring of the Trust and Loan Companies Legislation (Bill C-83).

Financially troubled S & L's in the U.S. amount to about 1,037 according to official sources. This represents roughly 25 per cent of the total number of S & L's. Preliminary estimates indicate that it will cost the American Treasury about $ 100 billion annually for 1991 and 1992 to finance the S & L bailout. Estimates show that the total costs will be above $ 500 billion over 40 years.

A study prepared by Larry D. Jones(1) discusses two opposing views explaining the collapse of many S & L's in the U.S. First, the Bush Administration and the Congress state that the S & L's profitability has been severely damaged in the last ten years because:

- removal of Regulation Q's interest rate ceiling has reduced the spread between rates on deposits and rates charged by Thrifts on mortgage rates;
- acquisition of high risk assets due to deregulation has increased the Thrifts' vulnerability to the economic cycle;
- administration costs have exploded as Thrifts pay more fees to brokers.

Along with reduced profitability, oil price declines during the 80s exacerbated the S & L's problems especially in the South and in the Southwest where real estate values decreased sharply. Also, the lack of supervision induced bad investment decisions due to gambling, self dealing, and incompetence of managers. According to official sources, fraud and incompetence explain 40 to 50 per cent of the S & L's financial troubles. Other analysts don't share the Bush Administration's view that deregulation has caused the worst financial crisis since the 30s. They contend according to Jones's study that "The seeds of the S & L's destruction were sown in the regulatory structure created to i) protect the S & L's from bank competition and ii) insure that S & L's remained housing finance specialists ". In fact, these restrictions have not prepared the S & L's for the 70s and the 80s forcing "... the industry in a position wherein it allowed a large exposure to interest rate risk ..." as well as "... vulnerability to innovations introduced by nonbank entities". During the 70s, unanticipated inflation eroded the net worth of the S & L's portfolio which consisted of long-term assets (mortgages) with low interest rates and short-term liabilities (deposits) with higher interest rates. Also, inflation favoured the introduction of high yield money market funds by nonbank entities with the exception of the Thrifts who were subject to deposit rate ceilings. Thus, the S & L's market share dropped significantly during the 70s.

Unlike the U.S., Canadian trusts have not experienced a financial disaster on a large scale.

Even though regulatory policy eliminating inefficiencies like interest rate ceilings during the early 80s, it expanded "... investment outlets for the S & L's without removing governmental deposit insurance protection. So, it "... induced managers to engage in either gambling or self dealing..." as indicated by Jones. The cost to taxpayers could have been reduced by closing insolvent institutions and reforming the deposit insurance system earlier.

The U.S. experience is of concern to Canada as our market shows several similarities. As in the U.S., Trust Companies which are the closest Canadian counterpart to the S & L's, "... grew as the primary supplier of home mortgage loans in an environment of regulatory protection from bank competition". Similar to the U.S., in Canada, a dual chartering and regulatory system at the federal and at the provincial level exists. As well, at the beginning of the 80s, many Trust Companies failed in the Western part of Canada due to a battered oil sector. Also, cases of fraud and self dealing raised questions about the efficiency of supervision along with the regulatory structure.

Unlike the U.S., Canadian trusts have not experienced a financial disaster on a large scale. Over the last twenty years, Canadian authorities have allowed a "... stronger but more flexible regulatory oversight than occurred in the U.S.". This flexibility has allowed Trust Companies to deal with the inflation of the 70s and deflation of the 80s:

- most of the major protection from bank competition was removed in the Bank Act of 1967 along with the

phasing out of mortgage and deposit rate ceilings during the 1967-1969 period;

- interest rate exposure was also reduced as regulators allowed Trust Companies to diversify their deposit structure and reduce mortgage loans to terms of five years or less;
- Canada Mortgage and Housing Corporation reduced the minimum NHA loan maturity from 25 years to 5 years;

Thus, as inflation picked up in the 70s and in the beginning of the 80s, depositors opted for short term financial instruments. Trust Companies' net worth were not stripped off as they offered variable deposit rates and shortened their mortgage loans unlike their U.S. counterpart. The stronger regulatory oversight helped Canadian Trust Companies avoid major financial problems. Also similar to the U.S., there exists a dual chartering and regulatory system (federal and provincial) but "... substantial uniformity has been achieved by having only one deposit insurance system (Canada Deposit Insurance Corporation (CDIC))". Even if 80 per cent of all Trusts in Canada have a federal charter, all provinces " ... have required all eligible Trusts to belong to CDIC and membership carries the obligation to operate in accordance with federal guidelines. These rules limit most Trust Companies deposits and other public borrowings to 20 times their equity capital, although, greater flexibility is available to selected federally chartered Trust Companies which agree to abide by stricter loan and investment guidelines". Furthermore, most of the Trust Companies operate in Ontario where liquidity requirements are tougher than the Canadian norms. This point is very relevant since Canadian Trust Companies have no Bank Board as in the U.S. to meet liquidity shortfalls at below market rates.

Supervision is also less difficult in Canada than in the U.S. Canada has only about 70 Trust Companies and less than 20 domestic Chartered Banks compared to over 4,000 S & L's and 14,000 banks in the U.S. Finally, many Canadian features have protected Trust Companies from financial disaster on a large scale:

- most of the financial institutions in Canada accept and make loans nationally which protect them from regional economic cycles;
- in the U.S., there is an incentive for homeowners to contract high leveraged mortgage loans as they can deduct mortgage interest payments. The inability of taxpayers to deduct mortgage interest in Canada reduces credit risks. Canadians have a "built-in incentive" to increase their savings and reduce home mortgage debt through a wide variety of prepayment programs at the mortgage renewal stage;
- despite the fact that Trust Companies have competition from other financial institutions,they don't compete with governmental agencies to provide mortgage funds as is the case in the U.S.;
- as inflation declined in the 80s, Trusts have included stronger prepayment conditions for their loans up to one year as the benefits of high interest rates vanished as a result of borrowers' willingness to exercise prepayments options.

Canadian experience tends to show that the S & L's problems in the U.S. originated mostly from inappropriate regulation and a flawed deregulatory process, rather than deregulation itself as the Bush Administration and Congress contend. The flexible Canadian approach of reformulating legislation and stimulating competition, in addition to an easier monitoring of its financial institutions as well as miscellaneous factors have protected the financial system from a broad based financial crisis.

1. Lawrence D. Jones, "The Savings and Loan Crisis: Are There Lessons in the Canadian Experience?" The MGIC Newsletter (Mortgage Guaranty Insurance Corporation) May/June 1989. All quotations are from Jones's text unless otherwise indicated.

THE EQUITY CENTER : A NEWCOMER IN THE REAL ESTATE INDUSTRY

In 1989, the Equity Centre was established to provide consumers access to a wide range of mortgage financing options from many lending institutions.

Homebuyers, through a network of 49 franchised Equity Centres across Canada, fill out mortgage applications with the help of a counselor. Applications are sent via computer to 13 lenders, mainly Chartered Banks, Trust Companies and Life Insurance Companies. Mortgage Insurance, either through Canada Mortgage and Housing Corporation or the Mortgage Insurance Corporation of Canada, can be arranged if required. Usually, within one day, the homebuyers receive bids from a number of lenders providing them with a good choice of avaloible options. The lender who wins the customer's approval pays a transaction fee of half of a percentage point of the loan to the Equity Centre. There is no charge for the service to the homebuyer.

The Equity Center is having a significant impact on the mortgage market since it substantially reduces transaction costs. Lenders benefit from being able to bid on items such as prepayments options, life insurance and other costs from head office which offers greater flexibility than going through the local branches. For several smaller institutions such as Life Insurance Companies, it reduces the costs associated with establishing a branch system. Customers have a number of options available to them without having to visit numerous lending institutions. Statistics show that the Equity Centre is becoming an important intermediary in the mortgage lending industry. The Equity Centre placed 4,046 mortgages during January to November 1990 accounting for sligthly more than $ 363 million. This compares with 3,079 placements during their first year of operation in 1989 accounting for $265 million.

continued from page 2

will mainly depend on overall monetary policy and on the supply of and the demand for mortgage credit. The extent to which the proposed legislation helps financial institutions direct their capital to the mortgage market relative to other investment options and whether the proposed legislation leads to healthy competition or to long-run concentration of financial markets will also impact mortgage rates. The proposed legislation by itself is unlikely to reduce mortgage rates in the short-run due to the above reasons and due to the start-up cost of technology required to facilitate networking operations. Even in the long-run, though scale economy and efficiency considerations would strengthen the possibility of lower rates, this may not materialize due to possible conglomeration of financial services.

INDICATORS OF MORTGAGE LENDING ACTIVITY

NHA and Conventional Loans Approved (thousands of dollars)

	Banks		Life		Trust		Loan Companies		Other		TOTAL	
	Units	$000	Units	$000	Units	$000	Units	$000	Units	$000	Units	$000
1988	365,666	27,543,322	70,945	3,137,921	246,897	17,229,690	74,574	5,467,984	13,802	900,782	771,884	54,279,699
1989	400,522	31,681,367	88,493	4,171,081	224,603	17,460,591	72,972	6,194,557	13,745	900,936	800,335	60,408,532
1990	293,697	22,761,383	43,037	2,101,775	127,640	9,484,583	44,530	3,850,798	9,568	625,368	518,472	38,823,907

NOTE: 1990 figures represent the first three quarters only.

Sales and purchases of insured NHA mortgages (millions of dollars) [1]

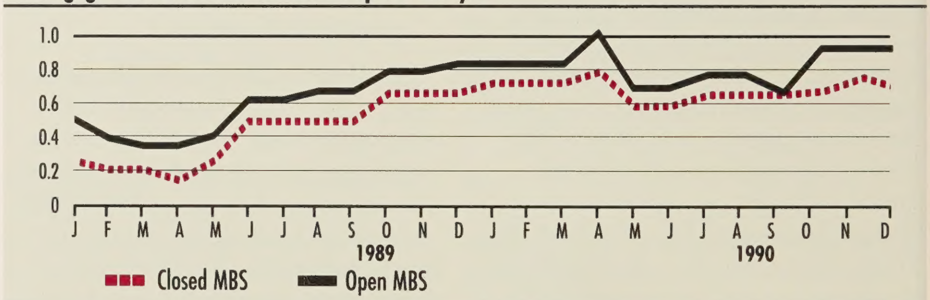
	Chartered Banks	Life Insurance	Trust Companies	Loan & Other Companies	Pension Funds	Corp.	Unicorp.	TOTAL
Sales - private secondary market								
1988	2,848.4	16.5	115.0	7.6	–	9.8	83.7	3,081.0
1989	772.5	74.7	82.9	14.6	–	52.7	–	997.4
1990 1Q	180.6	31.7	0.1	–	–	8.6	–	221.0
1990 2Q	129.1	–	–	6.8	–	11.4	–	147.3
1990 3Q	200.1	–	0.7	–	–	2.0	–	202.8
Purchases - private secondary market								
1988	75.6	57.1	63.2	2,836.1	7.6	29.4	12.0	3,081.0
1989	55.7	49.2	93.7	689.8	36.3	57.3	15.4	997.4
1990 1Q	3.0	31.7	0.1	177.4	0.2	0.4	8.2	221.0
1990 2Q	38.9	–	11.0	97.0	–	–	0.4	147.3
1990 3Q	1.5	3.3	–	195.8	0.1	–	2.1	202.8

1. Data for initial sales and purchases only. Subsequent sales and purchases are excluded.
Lending institutions are included under the appropriate category whether or not they are Approved Lenders under the National Housing Act.

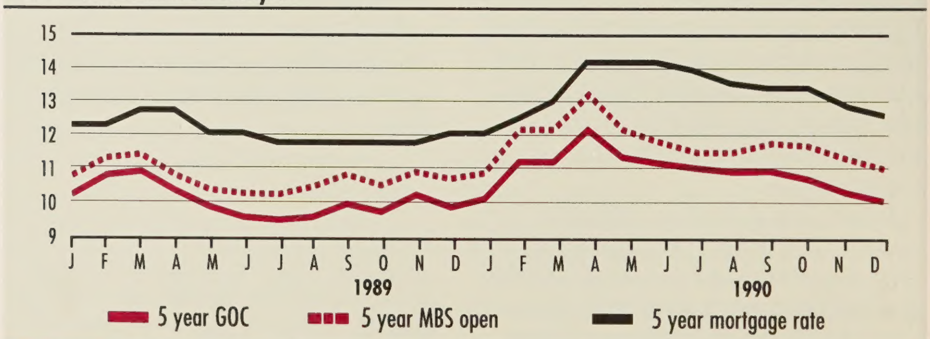
Mortgage-Backed Securities (millions $)

1987	$ millions	1988	$ millions	1989	$ millions	1990	$ millions
1Q	70.7	1Q	110.3	1Q	335.5	1Q	557.3
2Q	68.6	2Q	107.6	2Q	389.1	2Q	582.2
3Q	159.0	3Q	254.2	3Q	630.1	3Q	365.5
4Q	157.0	4Q	301.1	4Q	585.2	4Q	597.6

Mortgage-Backed Securities historical spread analysis



Historical interest rate analysis



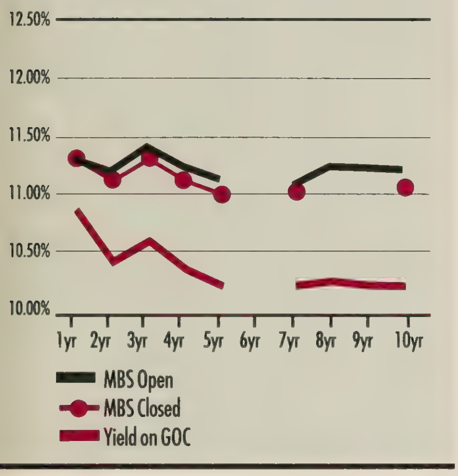
Source: CMHC

NHA MORTGAGE-BACKED SECURITIES

NHA MORTGAGE BACKED SECURITIES PASS $5 BILLION MARK

The pace of Canadian Mortgage Backed Securities (MBS) issues slowed in 1990 but continued to exceed levels of the previous year. The rate of growth for MBS was greater than the rate of mortgage credit in 1990. 177 pools were issued for a total of $2,103 million, up from the 172 MBS pools that were issued totalling $1,940 million in 1989. The outstanding amount stood at $5,271 million at the end of 1990.

NHA Mortgage-Backed Securities Yield Analysis – December 31, 1990



Source: Burns Fry Limited

NHA Mortgage-Backed Securities Yield Analysis – Market Closing January 9, 1991

GOC description				
Coupon Rate	Maturity Date	Type of MBS	Spread Basis pts.	Yield
10.75%	09/92	Open	67	10.96%
11.75%	10/93	Open	73	11.12%
9.25%	12/94	Open	77	10.97%
9.25%	12/94	Closed	71	10.91%
10.25%	03/96	Open	84	10.95%
10.25%	03/96	Closed	75	10.86%
10.50%	03/01	Open	100	11.03%

Source: Telerate; average for MBS traders

Issues of Mortgage Backed Securities have been strong during the fourth quarter totalling $ 597.6 million. Fourth quarter issues are the second highest level to date. The highest level was the $ 630.1 million issued during the third quarter of 1989. The strong fourth quarter numbers largely were the result of issues totalling over $ 270.0 million in December compared to $ 165.0 and $ 161.0 million in October and in November respectively.

Profitability for lenders on MBS issues was very good in 1990.

Profitability for lenders on MBS issues was very good in 1990. The spread between the five year mortgage rate and yield on five year Government of Canada bond (GOCs) was close to 250 basis points on average in 1990 compared to about 210 basis points in 1989. Generally, the spread between the five year mortgage rate and GOCs needs to be at least 200 basis points in order for lenders to issue MBS. Roughly 150 basis points are needed to fill the gap between the cost of administering a loan as opposed to investing the money in GOCs and at least an additional 50 basis points are required for an acceptable rate of return on mortgage lending activity and the subsequent issue of MBS to finance further mortgage lending. But high interest rate levels limited the demand for new mortgages in 1990 and consequently the volume of MBS issued. Declining home prices also helped explain the slower rate of growth of MBS issues in 1990.

Estimates from MBS Centre in Toronto show that the current $ 5 billion NHA MBS outstanding provided first mortgage financing for more than 60,000 houses and apartments and consequently a home to some 150,000 Canadians since the program was started in 1987. Of the $ 5 billion raised thus far through a total of 500 individual issues, 184 issues totalling $ 1.5 billion, or 30 per cent of the total amount in dollars, were used to finance new social housing. Issues of NHA MBS Social Housing Pools have resulted in a saving of $ 100 million in financing costs as the MBS product provides greater liquidity for lenders.

Slower growth of MBS issues is expected throughout 1991 as housing starts and sales of existing homes are forecast to be weak during the first half of the year. Generally, it takes approximately one to two quarters to see a pickup in the housing sector following a decline in interest rates and one additional quarter before an acceleration in mortgage credit demand occurs.

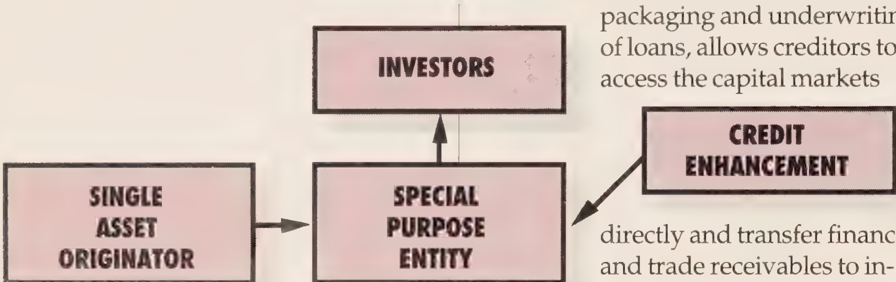
CREDIT SECURITIZATION – ASSET-BACKED SECURITIES

On January 3, 1991, Joe O'Brien, joined FirstLine Trust in Toronto, as Vice-President and Special Advisor to the Board of Directors. His return to the private sector follows eight and one-half years service with CMHC, as Special Advisor to the Corporation's Insurance Sector.

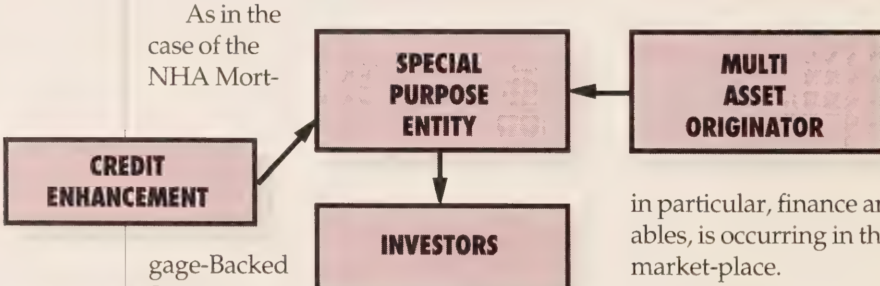
During his association with CMHC, Mr. O'Brien played a major role in the development and introduction of the NHA Mortgage-Backed Securities program, including serving as Director of the NHA MBS Centre, until September, 1989.

A book called "Securitization of Credit" written by Rosenthal and Ocampo, (McKinsey & Co. Inc.), states in its introduction, "Recently, the world of finance has had its share of new technologies that are changing the course and manner of business around the world. Although little celebrated outside the financial community, these new technologies are increasing the efficiencies of financing and capital formation."

Their book is about what the authors refer to as the newest and most important of these new technologies, the process called - "credit securitization". Credit securitization, the structured packaging and underwriting of loans, allows creditors to access the capital markets directly and transfer finance and trade receivables to investors for cash and is changing the traditional ways in which credit is funded.



As in the case of the NHA Mortgage-Backed Securities program, credit securitization is, as mentioned above, a structuring process, (hence the commonly used term "structured financing"), whereby loans are packaged, underwritten and sold in the form of securities known as "Asset-Backed Securities" (ABS). Structuring includes providing credit enhancement for credit rating purposes.



Whereas the term "asset-backed securities" could be interpreted to include securities backed by mortgages, in street parlance the latter are referred to specifically as "mortgage-backed securities", while securities backed by other assets are referred to as "asset-backed securities". The tremendous growth of mortgage-backed securities (MBS) in the United States, starting in the early 1970's led the way in that country to the securitization of other assets. Although still small compared to the MBS market, the public ABS in the U.S. grew to over $40 billion U.S. over the period 1985-89, with more than 90 per cent of the securities being backed by finance receivables, i.e. credit cards and auto loan receivables. Not surprisingly, in light of the success of Canada's NHA MBS program, the same trend to the securitization of other assets including, in particular, finance and trade receivables, is occurring in the Canadian market-place.

TYPES OF ASSET-BACKED SECURITIES

There are two types of ABS currently on the market in Canada, 1) finance receivables, (credit cards and car loans) and, 2) trade receivables (normally retail and wholesale trade receivables owing to a manufacturing company such as Bombardier, to cite a specific example). In the case of short-term finance and trade receivables, ABS is usually referred to as "asset-backed commercial paper"

because the securities are usually short-term debt securities issued by non-financial corporations with terms of a few days to one year. ABS can also be term securities (in excess of one year) in the same manner as NHA MBS.

The sale (through securitization) of the receivables is usually structured by way of their sale to a special purpose corporation, established for the sole purpose of purchasing receivables, which special purpose corporation, in turn, funds its purchases by issuing ABS. See accompanying chart).

STRUCTURE

As indicated above, the term "structure" (as in "structured financing") is used to describe the process through which the assets being securitized are transformed into rated securities for sale to investors. In the case of Bombardier, a special purpose company was set up to purchase wholesale (dealer) receivables from Bombardier Credit Limited. The receivables securitized are heavily concentrated in the recreational area, including snowmobiles, boats and recreational vehicles. Bombardier Credit Limited is a wholly owned subsidiary of Bombardier Inc., and was initially formed to finance wholesale (dealer) receivables of products sold by Bombardier Inc. The program was structured to securitize Bombardier's portfolio of wholesale receivables owed by a network of 885 dealers. This is the single seller approach.

It is interesting to note that the first public asset-backed securities issued in Canada came to the market in mid-November, 1989 and involved the securitization of short-term trade and finance receivables from various Canadian companies, a multi-seller approach. The Issuer was investment dealer, Wood Gundy Inc., which structured a then unique Canadian securitization program called "RAC", an acronym for "Receivables Acquisition Corporation". The special purpose corporate vehicle buys short-term trade and finance receivables from Canadian companies. RAC issues only short-term ABS (commercial paper) and then funds these purchases through securities issued in the Canadian commercial paper market. To date, in excess of $600 million in ABS have been sold by Wood Gundy under this RAC structure.

With respect to finance receivables (as opposed to trade receivables), in late 1989, Central Guaranty Trust Co. arranged the securitization of consumer loans of Trans Canada Credit, a subsidiary company. The amount of the issue involved was $183 million of commercial paper. Using the typical ABS structuring approach, the loans were sold by Trans Canada (originator of the credit) to a special purpose corporation, which in turn issued ABS to investors.

CREDIT RATING

As in the case of MBS, various forms of credit enhancements are attached to ABS to achieve a high credit rating making them attractive for sale to investors, at a lower yield (based on lower risk) to the investor than the receivables would normally require, if they could be sold at all. At the same time, a lower acceptable yield to investors results in a lower overall cost to the originator of the credit.

Rated securities offer the companies originating the credit the opportunity to diversify funding sources as investors rely on the credit rating of the securitization structure (a special purpose entity) rather than the often lower-rated obligations of the underlying credit originating companies. The higher the level of protection for investors achieved through credit enhancement, the higher the rating of the issue.

The type of credit enhancements required by rating companies so as to give the issue a marketable rating includes such things as over- collateralization, i.e. a higher dollar amount of receivables backing the issue than the issue amount itself; cash withheld from the issue amount to cover anticipated

As in the case of MBS, various forms of credit enhancements are attached to ABS to achieve a high credit rating...

The higher the level of protection for investors achieved through credit enhancement, the higher the rating of the issue.

delinquent accounts from defaults, etc. Another credit enhancement mechanism is to issue senior and junior securities with about 10 per cent of the issue representing junior securities which rank behind the 90 per cent senior securities portion sold to investors. The rating agency is concerned with a number of issues including the credit and collection policy of the originator of the receivables. The credit agency examines the historical arrears and loss experience of the credit originator. The agency is looking for predictable cash flows and the seller must have a good credit and collection policy. As the originator of the credit continues to collect on the receivables, the rating agency is concerned that there be no co-mingling of funds.

Representatives of the investment houses currently involved in the ABS market indicate that savings of anywhere up to 50 basis points (and possibly more) below bank borrowings can be achieved.

PRICING

Once an ABS issue has been structured and a favourable credit rating received, the offering is ready for market. It is highly unlikely that any short-term issues will be underwritten (where the brokers purchase the issue for sale to others) by brokerage houses. They are treated as commercial paper and are handled on an agency - best efforts - basis. The same might not apply to ABS issues backed by term receivables that were regarded as "term notes ABS" (with terms of one year or more), i.e. the issues might be underwritten by one or more brokerage houses. The price on ABS is a spread over bankers' acceptances (BAs) when short-term receivables (commercial paper) are involved. Fixed-term ABS are priced over similar term Canada Bonds in the same manner as NHA MBS. A Banker's Acceptance is a corporation's promissory note accepted (guaranteed) as to principal and interest by a bank. They have terms ranging from one to six months with the 1, 2, and 3 month term BA's being the most popular. In terms of pricing, the benchmark is the 3-month term BA.

ADVANTAGES TO ABS ISSUERS

The advantages to credit originators going the ABS route are essentially the same as for those mortgage lenders who securitize mortgages. Their aim is to get the receivables off their balance sheets and convert them to cash. Securitizing their receivables is one alternative to funding their operations by pledging them to a bank against bank loans, or raising equity. The bottom line is the cost and the final decision rests on which of these alternatives is the most cost effective.

Representatives of the investment houses currently involved in the ABS market indicate that savings of anywhere up to 50 basis points (and possibly more) below bank borrowings can be achieved. Securitizing receivables, in effect, eliminates the need to go the debt route and makes a company's balance sheet more attractive by being less highly leveraged.

The credit enhanced RAC program (multi-seller) gives small companies the opportunity to combine with others to go the commercial paper route, which would not normally be available to them, with resultant lower- cost funding.

There is still some uncertainty to what extent any on-going recourse to the Issuer after the sale of the assets can prejudice off-balance sheet treatment. At one point, the Canadian Institute of Chartered Accountants issued a policy statement to the effect that if right of recourse represented less than 10 per cent of the amount of the issue, the receivables could still be treated as off-balance sheet. Apparently the Office of the Superintendent of Financial Institutions has some second thoughts on this treatment and the matter is not yet settled with respect, at least, to financial intermediaries, including banks.

THE ROLE OF THE BANKS

The fact that finance and manufacturing companies can go directly to the capital markets through the use of ABS, thereby reducing the need to borrow from banks, does not mean that the banks have no role to play. Banks are usually involved in providing credit enhancement through arrangements such as letters of credit. They also play the role of the servicing agent for an issue somewhat similar to the role of the Central Payor and Transfer Agent in the NHA Mortgage-Backed Securities program. In acting as the servicing agent

with respect to RAC Trust program, for example, CIBC is involved in the structuring and management of the receivables and, as such, through rigorous testing and a highly developed credit process, ensures that the approved receivables are of high quality and audited on a continual basis.

By way of further illustrating the key role of the major banks in the ABS commercial paper market, RAC Trust has entered into a liquidity backstop agreement with CIBC that allows it to borrow sufficient funds to meet 100 per cent of its maturing note obligations. In addition, RAC Trust enjoys a credit enhancement from the Union Bank of Switzerland (Canada) guaranteed by its parent, whereby UBS has provided a secondary purchaser commitment for 10 per cent of all notes outstanding.

CURRENT ABS MARKET ACTIVITY

Although there would appear to be little doubt that the ABS market in Canada will grow fairly rapidly, the current depressed economic conditions appear to be somewhat of an inhibitor to some prospective corporate asset securitizers. As one investment dealer pointed out, the disposal of good performing assets (receivables) for cash, without efficient and profitable uses for the proceeds in today's economic environment may not make good business sense.

On the other hand, as banks and other traditional funding sources tighten up on their lending activities, while at the same time increasing fees to borrowers, securitization becomes a very attractive alternative to business as usual with the banks, depressed economic conditions notwith- standing. In the meantime, Richard Nesbitt of Wood Gundy reports that his company, which is the current leader in the ABS field, continues to promote its multi-seller RAC and LEAF (a second program which unlike RAC deals with short to medium-term - six months to five years lease receivables) programs, as well as continuing to promote single-seller issues or programs, such as Bombardier.

The RAC program now totals approximately $600 million in securities outstanding while the more recent LEAF program is in the $200 million area. Burns Fry, (Ian Bandeen), ScotiaMcLeod, (Jamie Colliver), and RBC Dominion Securities, (Scott Frazer), are busy gearing up their respective organizations' operations and all three indicate that they have deals underway.

In conclusion, there would appear to be little doubt that credit securitization will develop in Canada as an efficient alternative method of financing and capital formation, continuing to be led by the securitization of insured mortgages under the active NHA MBS program, and other mortgage- backed securities programs involving both insured and uninsured mortgage loans.

...as banks and other traditional funding sources tighten up on their lending activities ... securitization becomes a very attractive alternative to business...

SOCIAL HOUSING FINANCING

COMPETITIVE FINANCING RENEWAL PROCESS (CFRP)

During December 1990, 97 social housing mortgages were renewed under the Competitive Financing Renewal Process (CFRP). The average rate achieved during the month was .9623 percentage points below the NHA social housing maximum. In 1990, 990 loans were renewed through CFRP. Since its inception in September 1988, 2,103 social housing mortgages have been renewed resulting in savings exceeding $100 million.

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Mark Burchinshaw, Market Analysis Centre, CMHC, 682 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2574.

For information regarding MBS please call Doug Hughes, General Manager, MBS Centre, CMHC, Toronto Tel.: (416) 756-0777

Mortgage Market Trends is a quarterly publication. Enquiries regarding subscription should be directed to: The Manager, Marketing & Communications, Market Analysis Centre, CMHC, 682 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2286

NHA Mortgage-Backed Securities Fourth Quarter Issues – October 1990 to December 1990

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: OCTOBER 1990						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96402847	Shoppers Trust Company	5,003,107.05	10.875	October 1, 1995	13.13	24.67
96402854	Shoppers Trust Company	4,000,068.79	11.250	September 1, 2000	12.73	24.19
96402870	Bayshore Trust Company	7,025,716.67	11.000	October 1, 1995	13.05	24.50
96402896	Shoppers Trust Company	3,013,270.06	11.250	October 1, 2000	12.65	24.74
96402904	Standard Trust Company	10,999,873.33	10.875	September 1, 1995	12.99	24.60
96402912	Firstline Trust Company	5,000,716.57	11.000	October 15, 1995	11.84	23.40
96402938	Firstline Trust Company	6,000,047.55	11.125	October 15, 1995	12.81	24.14
96402946	Firstline Trust Company	15,000,199.38	11.750	October 15, 2000	12.72	24.05
96402953	Firstline Trust Company	20,000,016.77	11.375	October 15, 1995	13.05	23.83
96402979	Firstline Trust Company	2,462,344.36	11.375	October 1, 1993	13.26	22.85
SOCIAL HOUSING POOLS						
99001554	CBIC Mortgage Corporation	34,550,539.68	10.750	October 1, 1995	11.62	29.21
99001562	Toronto-Dominion Bank	15,585,410.94	10.875	October 1, 1995	11.54	29.75
99001570	Bank of Nova Scotia	16,520,075.88	10.750	October 1, 1995	11.62	31.67
99001596	Fiducie Desjardins Inc.	2,207,370.90	11.125	October 1, 1995	11.92	27.54
99001612	CBIC Mortage Corporation	5,451,514.40	11.000	October 1, 1995	12.04	25.42
99001620	Bank of Nova Scotia	2,416,052.45	10.750	October 1, 1995	11.65	25.00
99001638	Central Guaranty Trust Company	2,923,252.11	10.750	October 1, 1995	11.62	30.00
99001695	Firstline Trust Company	7,459,560.00	11.625	October 1, 2000	13.46	35.00
MONTH OF ISSUE: NOVEMBER 1990						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96402920	Firstline Trust Company	8,000,097.03	11.875	April 1, 2003	12.81	24.47
96402961	Bayshore Trust Company	12,010,819.82	11.500	November 1, 1995	13.00	24.83
96402987	Shoppers Trust Company	3,503,784.20	11.000	October 1, 1995	12.93	24.45
96402995	Shoppers Trust Company	3,000,815.26	11.750	November 1, 2000	12.71	24.49
96403001	Standard Trust Company	12,999,974.20	11.000	October 1, 1995	12.95	24.43
96403019	Firstline Trust Company	28,000,149.99	11.875	October 1, 1995	12.94	23.64
96403027	Firstline Trust Company	5,000,256.67	12.000	October 1, 2000	12.78	23.09
96403050	Firstline Trust Company	10,000,099.03	11.250	November 1, 1995	13.00	23.35
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600002	Firstline Trust Company	8,844,511.15	11.125	November 1, 1995	12.22	35.98
SOCIAL HOUSING POOLS						
99001588	Bank of Nova Scotia	14,964,013.79	10.750	November 1, 1995	11.68	30.47
99001653	Toronto-Dominion Bank	8,270,255.07	11.125	November 1, 1995	11.85	30.40
99001661	CBIC Mortgage Corporation	22,153,700.64	10.875	November 1, 1995	11.69	29.05
99001679	Bank of Montreal	7,301,441.84	11.125	November 1, 1995	11.69	30.00
99001687	Bank of Nova Scotia	17,022,848.72	11.250	October 1, 1995	12.08	34.92
MONTH OF ISSUE: DECEMBER 1990						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96403035	Royal Trust Company	45,003,743.48	11.250	October 15, 1991	13.35	23.85
96403043	Shoppers Trust Company	5,001,561.91	10.875	November 1, 1991	12.92	24.91
96403076	Bayshore Trust Company	11,013,867.85	11.125	December 1, 1995	13.01	24.47
96403084	Firstline Trust Company	15,000,492.17	11.125	January 1, 1996	12.91	24.33
96403092	Firstline Trust Company	5,000,741.55	11.625	January 1, 1996	11.47	24.33
96403118	Firstline Trust Company	5,000,070.93	10.875	December 1, 1993	13.12	24.14
96403126	Firstline Trust Company	4,000,766.26	10.750	November 1, 1992	13.25	23.89
96403134	Firstline Trust Company	20,000,784.83	11.250	January 1, 1996	12.98	24.57
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600010	Firstline Trust Company	4,128,671.68	10.750	July 1, 1992	11.25	26.61
96600028	Firstline Trust Company	10,469,693.57	10.750	November 1, 1992	11.50	26.97
96600036	Firstline Trust Company	8,312,789.69	10.875	February 1, 1993	11.50	27.21
SOCIAL HOUSING POOLS						
99001489	Maritime Life Assurance Company	8,761,257.59	10.000	December 1, 1995	12.16	30.36
99001703	Toronto-Dominion Bank	5,819,318.95	11.375	December 1, 1995	12.04	26.72
99001711	Bank of Nova Scotia	17,109,810.50	11.250	December 1, 1995	12.10	29.25
99001729	CIBC Mortgage Corporation	28,929,587.47	11.250	December 1, 1995	12.09	28.02
99001737	Bank of Nova Scotia	2,488,363.74	11.000	November 1, 1995	11.93	34.92
99001828	Firstline Trust Company	7,528,118.05	10.625	August 1, 1993	11.46	27.77
99001836	Firstline Trust Company	16,728,403.12	10.500	November 1, 1992	11.58	27.07
99001844	Firstline Trust Company	5,457,172.70	9.750	March 1, 1992	10.25	26.50
99001851	Firstline Trust Company	3,365,257.37	10.500	December 1, 1991	11.25	26.17
99001869	Firstline Trust Company	9,687,621.45	10.500	October 1, 1991	11.09	25.86
99001877	Firstline Trust Company	10,068,032.67	10.375	August 1, 1991	11.00	25.69
99001893	Firstline Trust Company	12,185,363.79	10.875	December 1, 1995	12.34	25.16
99001901	Firstline Trust Company	7,478,511.56	10.750	December 1, 1995	11.82	33.55
99001745	Peoples Trust Company	2,401,186.02	11.500	December 1, 1995	12.66	19.18

CMHC MORTGAGE MARKET

TRENDS

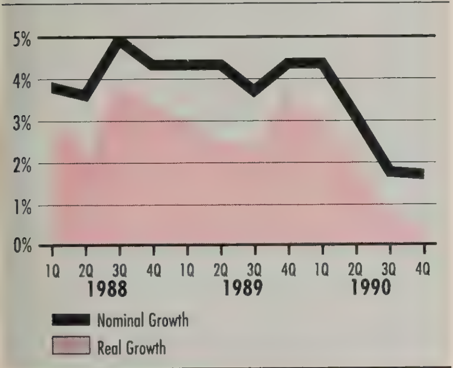
MARKET ANALYSIS CENTRE APRIL 1991

MORTGAGE LENDING

MORTGAGE CREDIT GROWTH WEAKENED FURTHER IN THE FOURTH QUARTER OF 1990

Consistent with the decline in economic activity, residential mortgage credit growth continued to weaken in the fourth quarter of 1990. Mortgage credit growth is anticipated to remain soft for the next one or two quarters since the economic recovery is expected to take place only in the second half of the year and consumers are highly in debt relative to their disposable income.

Residential Mortgage Credit Growth Nominal and Real *(from previous quarter)*



Source: Bank of Canada *CMHC – MAC 1991*

Market Share of Residential Mortgage Credit

	4Q89	3Q90	4Q90
Banks	51.4%	52.9%	53.2%
Trust	39.9%	38.4%	38.0%
Life	8.2%	8.2%	8.2%
Sales & Loan	0.5%	0.6%	0.6%

Source: Bank of Canada *CMHC – MAC 1991*

The current value of residential mortgage credit outstanding for banks, trust, life insurance and loan companies, which represents approximately 82 per cent of all the mortgage credit outstanding, grew only by 1.7 per cent during the fourth quarter of 1990 compared to 1.8 per cent in the preceding quarter. Mortgage credit growth has not been so weak since the fourth quarter of 1984 when mortgage credit grew by 1.1 per cent. After adjusting for inflation, mortgage credit outstanding grew marginally by 0.2 per cent in the fourth quarter of 1990, down 0.5 per cent from the previous quarter rate of change.

For the year as a whole, mortgage credit outstanding grew by only 11.6 per cent on a fourth quarter-over-fourth quarter basis compared to 17.8 per cent during the previous two years and 19.6 per cent in 1987. Mortgage credit outstanding after adjusting for inflation, showed a similar pattern with a 6.4 per cent growth rate in 1990 compared to the 12-14.5 per cent range observed over the 1986-1989 period.

High interest rates observed throughout 1990 have contributed to weakened mortgage credit growth. Housing starts dropped by 16 per cent to 181,630 units in 1990, their lowest level since 1985. As with new houses, sales of existing units fell sharply. According to the Canadian Real Estate Association, the nation-wide residential sales volume of the MLS (Multiple Listing Service) plummeted 22.5 per cent last year. Home price declines also exacerbated the weakness of mortgage credit growth. The national average price for a home fell 3.6 per cent in 1990 according to the Canadian Real Estate Association. In addition, as a result of significant mortgage credit growth over the last four years, consumers' debt to disposable income ratio reached record levels close to 60 per cent at the end of 1990 compared to the preceding record of 48 per cent reached before the 1981-1982 recession. As a result, NHA and conventional loans approved decreased 6.8 per cent in term of units and 7.7 per cent in the dollar amount during 1990.

Anecdotal evidence showed that mortgage applications surged during the first two weeks of March 1991 suggesting at first glance a recovery of the mortgage credit growth. It must be pointed out that mortgage applications usually rebound at the beginning of March of each year since February is a slack period. Furthermore, February figures were so low this year that a technical rebound is normal in these circumstances. Mortgage credit is expected to be sluggish for the next one or two quarters since further interest rate declines will not have a significant impact on construction and resale markets before the third quarter of this year. Moreover, average house prices will increase only marginally in 1991 in response to weak demand and high inventories. High debt levels of households will also limit any significant mortgage credit increase throughout the remainder of 1991.

CANADIAN HOUSING FINANCE CONFERENCE

FEASABILITY AND IMPLEMENTATION OF NEW HOUSING FINANCE IDEAS IN CANADA

In the first Canadian Housing Finance Conference held in Toronto on October 31 and November 1, 1990, many new promising initiatives of housing finance for Canada were proposed and debated in order to improve accessibility to housing.

One of the three papers presented at the Conference titled 'Feasibility and Implementation of New Housing Finance Ideas in Canada', emphasized the feasibility of innovative financing approaches which increase accessibility to first-time homebuyers.

According to the author of the report, James E. Pesando(1), the need to explore innovative financing tools for housing emerged from conditions confronting prospective homebuyers in the 1990's.

First, sharply higher prices for homes in many markets increased substantially the minimum downpayment requirements as well as carrying costs. Second, volatile interest rates, which force homebuyers to speculate on the future course of interest rates, increase the risk that homebuyers will face sharply higher interest rates on mortgage renewal dates. Furthermore, even in the case of a decline of nominal interest rates due to a lower inflation rate for the next several years, a large part of economists agree that heavy financial requirements of federal and provincial governments in Canada and strong world demand for capital will maintain real interest rates at relatively high levels for the next several years.

In order to overcome the problems, a number of options were explored. While each proposal has both strengths and weaknesses the author feels that there is no panacea for housing accessibility problems but a number of initiatives are promising. These include mortgage-backed securities (MBS), allowing first-time buyers to use their RRSP funds for downpayment, an average interest rate concept (AIRM's), and index linked mortgages (ILM's).

Accelerate the Pace of Securitization (Mortgage-Backed Securities)

Since 1987, issues of mortgage-backed securities, which is a pool of mortgages sold on the market like a bond, have been a significant contributor to lowering mortgage rates for a given level of risk since they have increased liquidity available for lending purposes. At the end of 1990, the outstanding amount of MBS exceeded $ 5 billion. Proportionally, this is far smaller than the corresponding market in the U.S. although the Canadian market is relatively new.

The obvious advantage of AIRM is to smooth the impact of volatile interest rates on mortgage payments.

Allow First-Time Buyers Access to RRSP Funds for Downpayment

Many versions of the proposal allowing first-time buyers to use RRSP funds as a downpayment have been sketched out in the last few years. It has been proposed that RRSP funds be used as a downpayment and be secured by a deferred-payment mortgage (DPM), to be administered by a financial institution. The DPM would earn interest at the prevailing market rate, but with no periodic payments for the first-time buyer so that interest would be fully capitalized into the principal. Others suggested that the return on an RRSP loan would be the lesser of the accrued interest on the loan or the pro rata increase in the value of the property. The DPM would be retired, for example, at the earliest of (i) 20 years, (ii) the sale of the property, or (iii) the individual attaining age 71. Or simply, first time-buyers would have to make periodic payments on their RRSP loan.

Allowing first-time buyers to use their RRSP's to fund downpayments is attractive from the perspective of improving accessibility since downpayments are related to savings net of taxes rather than gross. For example, an individual can target $ 3,000 per year of pretax income toward saving for a downpayment. Assuming an annual interest rate of 10 per cent for the investment and a combined federal-provincial tax rate of 40 per cent, the accumulated saving for the downpayment will equal approximately $ 10,150 after five years. If the homebuyer saves $ 3,000 a year inside an RRSP, the accumulated amount available for the downpayment will equal $ 18,322, which is an increase of $ 8,172. Furthermore, the individual would have the benefit to continue to earn the pretax interest rate, and the building of retirement security would be enhanced.

But, according to the author, this proposal raises major concerns for pension and tax policy purposes. First, legislators would have to alter the Income Tax Act (ITA) since a principal residence is not a qualified RRSP investment, and members of employer-sponsored pension plans, whose RRSP limits are reduced would be disadvantaged relative to those who do not have an employer-sponsored pension plan. Second, if the ITA were changed to allow RRSP funds to be used as a down-

payment, the issue would arise as to whether the anticipated rate of return to the RRSP is commensurate with the risk that the investment represents. Related to this, if RRSP funds earn a beneath market rate of return for a given level of risk, there will be a loss of revenue as a result of the smaller size, other things being equal, of the accumulated funds in the RRSP. Third, allowing RRSP funds as downpayment for the first-time buyers would favor RRSP investments relative to other investments since individuals would want to take out the maximum self-mortgage.

The average interest rate concept (AIRM)

To reduce uncertainty regarding the future path of nominal interest rates, the "average interest rate mortgage" may merit attention. For example, instead of taking out a $100,000 mortgage over 5 years, the borrower would take out a $20,000 mortgage at the one-year mortgage rate, a $20,000 mortgage at the two-year rate, and so on.

The obvious advantage of AIRM is to smooth the impact of volatile interest rates on mortgage payments. But the author remarked that it is important to recognize that AIRM, which is a particular case of the "adjustable rate mortgage", simply redistributes interest rate risk, and does not reduce it. For instance, if interest rates are very high for a certain period of time, on average, the AIRM would carry an interest rate in excess of fixed mortgage rates since mortgage payments will take into account the peak of the mortgage rates. The phenomenon could be exacerbated when short term-rates are higher than long-term mortgage rates, as has been the case recently.

The Index-Linked Mortgage (ILM)

ILM's were introduced into the Canadian capital market by CMHC to finance Co-operative Housing on a 5-year trial basis in 1985. Contrary to AIRM, the ILM rate has the advantage of reducing the risk to both lenders and the borrowers. First, the real interest rate is fixed over the life of the mortgage so the inflation risk is eliminated. Second, the other part of the mortgage rate is linked to the inflation rate in order that the inflation adjustment can be capitalized in the principal alleviating the initial pressures on the gross debt service ratio.

For example, the standard equal-payment mortgage (EPM) system, which is the case for typical residential mortgages, would require fixed annual payments of $8,981 assuming a $1,000,000 mortgage(2) financed at 10.5 per cent over the amortization period - 30 years. Assuming a real rate of 4 per cent and an annual inflation rate of 5 per cent over 30 years, the ILM would require a mortgage payment of $4,860 for the first year increasing gradually to reach $20,004 at the end of the amortization period - year 30.

In order to avoid affordability problems if inflation becomes very high, one can use a "tilt" mechanism which allows monthly payments to increase at a rate less than inflation. Assuming a 2 per cent tilt, mortgage payments in the above example amount to $6,001 for the first year increasing gradually to reach $14,142 at the end of the amortization period. Even if mortgage payments include a tilt premium, the annual mortgage payments under the ILM system are lower for the first 14 years than those under the EPM system.

According to the author, the ILM system requires the education of both borrowers and lenders and it is not clear if homebuyers would be comfortable taking out an ILM. Second, from a lender perspective, the capitalization of inflation represents an increase in risk since an assumption has to be made on the future course of the inflation rate. However, if the variability of inflation is fairly modest, this risk could be fairly manageable.

(1) The views expressed in the paper are those of the author and do not necessarily reflect those of Canada Mortgage and Housing Corporation.

(2) Example reproduced from: Introducing Investors to Index Linked Mortgages, Canada Mortgage and Housing Corporation, November 1, 1986, p. 6.

MORTGAGE RATE OUTLOOK FOR 1991

The outlook for mortgage interest rates during the remainder of 1991 will be determined primarily by the magnitude and the duration of the recession, the impact of GST on inflation and the evolution of interest rates in other countries. Most economic forecasters are expecting further declines in short-term interest rates during 1991 in response to lower inflationary pressures, excluding GST effects, resulting from weak economic growth. However, heavy financial requirements emerging from increasing government deficits, along with strong demand for capital around the world, will limit the decrease in long-term interest rates relative to short-term interest rates.

The consensus of forecasters is for short term interest rates to continue to decline throughout the second quarter of 1991 due to the following reasons:

- At current levels, most analysts agree that interest rates are too high to restart the economy since consumer confidence is very low while unemployment is high;
- High unemployment and lower oil prices will limit or eliminate the dangers of a wage/price spiral resulting from the GST;
- Similar to Canada, the U.S. is expected to lower interest rates in order to fight the recession, which will provide more room for the Bank of Canada to lower interest rates without creating speculation against the Canadian dollar.

Long-term interest rates are expected to remain stable or decline slightly by most forecasters since:

- The expected short-term interest rate decline has already been discounted by investors since the yield curve is relatively flat;
- Mounting public debt along with high deficit levels of the federal and provincial governments both in Canada and the U.S. will increase demand for long term funds;
- The reconstruction needs emerging from the Gulf war, an investment boom in Europe resulting from the movement towards a common market in 1992, German reunification, along with projected increases in public spending in Japan, will all maintain a strong demand for long-term capital around the world.

continued on page 4

continued from page 3

After declining during the first half of the year, interest rates are expected to stabilize as the economy recovers. Most analysts expect the one-year mortgage rate to drop by an additional 0.5 percentage points to the 10.25 per cent range by the beginning of the summer before stabilizing at the same level for the rest of the year. Five-year mortgage rates are forecast to edge down to the 10.75 per cent range before stabilizing, by the summer, for the rest of the year. Although most forecasters agree that interest rates will decline during the year, the magnitude of the decline according to each forecaster depends on the severity of the recession.

INDICATORS OF MORTGAGE LENDING ACTIVITY

NHA and Conventional Loans Approved (thousands of dollars)

	Banks		Life		Trust		Loan Companies		Other		TOTAL	
	Units	$000	Units	$000	Units	$000	Units	$000	Units	$000	Units	$000
1988	365,666	27,543,322	70,945	3,137,921	246,897	17,229,690	74,574	5,467,984	13,802	900,782	771,884	54,279,699
1989	400,393	31,670,920	91,975	4,276,572	216,101	16,775,248	73,112	6,205,826	13,636	894,430	795,217	59,822,996
1990	373,267	29,227,383	69,257	3,348,579	220,380	16,165,468	58,151	5,005,475	13,038	840,317	734,093	54,587,222

NOTE: 1990 figures represent the first three quarters only.

Sales and purchases of insured NHA mortgages (millions of dollars) [1]

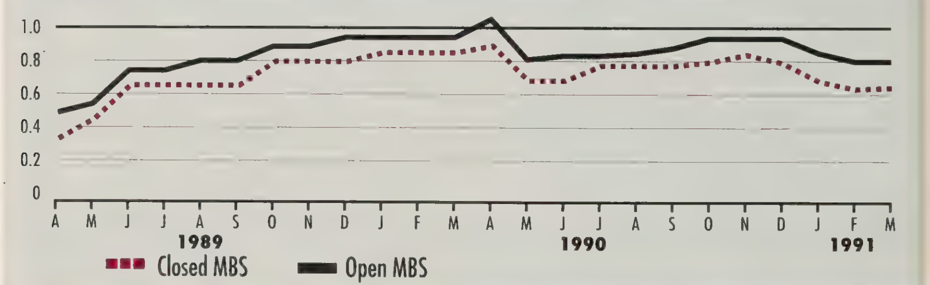
	Chartered Banks	Life Insurance	Trust Companies	Loan & Other Companies	Pension Funds	Corp.	Unicorp.	TOTAL
Sales - private secondary market								
1988	2,848.4	16.5	115.0	7.6	–	9.8	83.7	3,081.0
1989	772.5	74.7	82.9	14.6	–	52.7	–	997.4
1990	747.2	31.7	7.2	6.8	–	28.7	–	821.6
1990 1Q	180.6	31.7	0.1	–	–	8.6	–	221.0
1990 2Q	129.1	–	–	6.8	–	11.4	–	147.3
1990 3Q	200.1	–	0.7	–	–	2.0	–	202.8
1990 4Q	237.4	–	6.4	–	–	6.7	–	250.5
Purchases - private secondary market								
1988	75.6	57.1	63.2	2,836.1	7.6	29.4	12.0	3,081.0
1989	55.7	49.2	93.7	689.8	36.3	57.3	15.4	997.4
1990	62.6	36.4	75.3	628.5	0.4	1.1	17.3	821.6
1990 1Q	3.0	31.7	0.1	177.4	0.2	0.4	8.2	221.0
1990 2Q	38.9	–	11.0	97.0	–	–	0.4	147.3
1990 3Q	1.6	3.3	–	195.7	0.1	–	2.1	202.8
1990 4Q	19.1	1.4	64.2	158.4	0.1	0.7	6.6	250.5

1. Data for initial sales and purchases only. Subsequent sales and purchases are excluded.
Lending institutions are included under the appropriate category whether or not they are Approved Lenders under the National Housing Act.

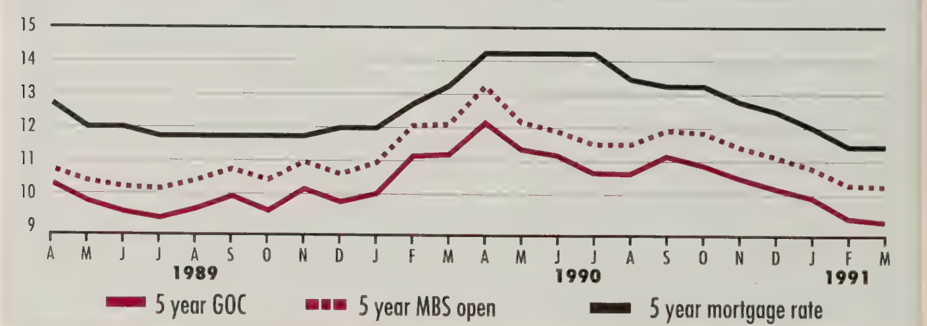
Mortgage-Backed Securities (millions $)

1988	$ millions	1989	$ millions	1990	$ millions	1991	$ millions
1Q	110.3	1Q	335.5	1Q	557.3	1Q	505.4
2Q	107.6	2Q	389.1	2Q	582.2		
3Q	254.2	3Q	630.1	3Q	365.5		
4Q	301.1	4Q	585.2	4Q	597.6		

Mortgage-Backed Securities historical spread analysis (MBS over GOC, 5 year maturity)



Historical interest rate analysis



Source: CMHC – MAC 1991

Mortgage Market Trends – April 1991

Errata

The following paragraph on page 3 of the Canadian Housing Finance Article contains an error. The correct version is:

For example, the standard equal payment mortgage (EPM) system, which is the case for typical residential mortgages, would require fixed **monthly** payments of $8,981 assuming a $1,000,000 mortgage (2) financed at 10.5 per cent over the amortization period — 30 years. Assuming a real rate of 4 per cent and an annual inflation rate of 5 per cent over 30 years, the ILM would require a **monthly** mortgage payment of $4,860 for the first year increasing gradually to reach $20,004 at the end of the amortization period — year 30.

The first sentence of the NHA MBS article on page 5 contains an error. The sentence should read:

"NHA Mortgage-Backed Securities issues in dollar value slowed during the **first quarter of 1991. . . .**"

Tendances du marché hypothécaire de la SCHL – Avril 1991

Errata

L'article traitant du financement de l'habitation au Canada contient une erreur au 3e paragraphe. La version exacte devrait être la suivante :

Par exemple, le système courant des prêts hypothécaires à paiements égaux (PHPE), ce qui est le cas pour la majorité des hypothèques résidentielles, nécessiterait des paiements **mensuels** fixes de 8 981 $, si l'on suppose un prêt hypothécaire de 100 000 $ (2) portant intérêt à 10,5 p.100 l'an durant une période d'amortissement de 30 ans. Si le taux d'intérêt réel est de 4 p. 100 et le taux annuel d'inflation de 5 p. 100 durant 30 ans, le PHI nécessitera un paiement **mensuel** hypothécaire de 4 860 $ la première année, puis un paiement progressivement plus élevé d'année en année qui atteindra 20 004 $ à la fin de la période d'amortissement, c'est-à-dire à la trentième année.

De plus, le premier paragraphe (page 5) de l'article traitant des émissions de titres hypothécaires LNH, devrait se lire comme suit :

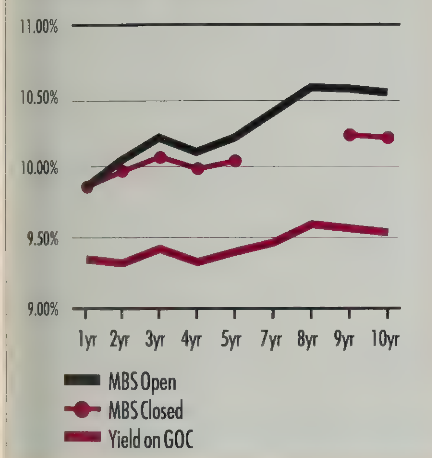
«La valeur en dollars des émissions de titres hypothécaires LNH a diminué pendant le **premier trimestre de 1991. . . .»**

NHA MORTGAGE-BACKED SECURITIES

NHA MORTGAGE BACKED SECURITIES REMAINED ABOVE THE $ 500 MILLION MARK DURING THE FIRST QUARTER OF 1991

NHA Mortgage-Backed Securities issues in dollar value slowed during the third quarter of 1990 in line with a weak real estate market. The overall amount of NHA Mortgage-backed Securities issues totalled $ 505.4 million during the first three months of the year, down $ 92.2 million from the level of $ 597.6 million observed during the fourth quarter of 1990.

NHA Mortgage-Backed Securities Yield Analysis – March 28, 1991



Source: Burns Fry Limited CMHC – MAC 1991

NHA Mortgage-Backed Securities Yield Analysis – Market Closing April 3, 1991

GOC description				
Coupon Rate	Maturity Date	Type of MBS	Spread Basis pts.	Yield
9.25%	03/93	Open	59	9.76%
10.25%	02/94	Open	65	9.96%
10.75%	12/95	Open	71	10.16%
10.75%	12/95	Closed	55	10.00%
10.25%	03/96	Open	74	10.05%
10.25%	03/96	Closed	59	9.90%
9.75%	06/01	Open	92	10.38%

Source: Telerate; average for MBS traders CMHC – MAC 1991

Despite the 1.0 to 1.5 percentage point decline in mortgage rates during the first quarter of 1991, the recession has kept mortgage lending growth at a sluggish pace, which has limited substantial increases of NHA Mortgage-Backed Securities (MBS) in dollars but not in term of the number of issues. For instance, an all time record of 64 new pools were issued during the first quarter of 1991 compared to the preceding record of 57 observed during the preceding quarter.

The lenders were very active in the market as NHA MBS continued to provide them with a valuable source of funds. The spread between the five-year mortgage rate and yield on five-year Government of Canada Bond (GOCs) was approximately 210 basis points during the first quarter of 1991. As we stated in the previous issue of Trends, a spread of approximately 150 basis points is needed to fill the gap between the costs of administrating a mortgage loan instead of investing in GOC and an additional 50 basis points spread is required for an acceptable rate of return on mortgage lending activity.

Also, the yield on NHA MBS remained very attractive to investors even though the spread between NHA MBS and five-year GOC has narrowed recently since both investments provide the same level of risk. The spread between the yield on five-year term MBS with non-prepayable option (Closed MBS) and the yield on five-year GOCs stood approximately at 55 basis points at the end of March compared to 80 basis points on average in 1990 and in the first two months of 1991. Similarly, the spread between the MBS with prepayable option (Open MBS) and GOC yield for the five-year term fell by 25 basis points from about 100 basis points to 74 basis points by the end of March.

The narrowing of spreads between NHA MBS and GOCs is consistent with the decline in interest rates since the beginning of the year. Lower interest rates should lead to more mortgage lending other things being equal, which should mean more MBS issues, thus increasing the relative liquidity of MBS over GOCs.

Yield on MBS has always been higher than yield on GOC's because investors generally prefer more liquid assets to less liquid ones for the same level of risk. Also, the yield on Open MBS is higher than the yield on Closed MBS since investors require a premium for cash flow uncertainty. With Open MBS, mortgagors can prepay the whole or part of the principal of their mortgage contrary to Closed MBS which has predictable cash flow.

Issues of MBS in dollar amount are expected to remain soft for at least the next one or two quarters as housing starts, sales of existing homes and as relatively lower home prices, on average, will limit mortgage lending. Further interest rate declines will be necessary in order to revive significantly mortgage lending and the value of MBS issues.

STREETTALK

LONG-TERM MORTGAGE-BACKED SECURITIES

The longer-term mortgage is showing signs of making a comeback after years of neglect from both Canadian homeowners and the financial services industry. The present lower level of both mortgage and bond market rates will have a positive impact on the supply of long-term funds. In line with a shift from shorter term to longer term demand for funds, lenders could use the NHA MBS program as a tool to supply long-term mortgages.

Spreads Over Canada Bonds For 5 and 10-Year Maturities (%)

		Open MBS	Corporate Bonds (AA and A)
1990	May	0.95	1.00
	June	0.95	0.94
	July	0.95	0.99
	August	0.94	0.96
	September	0.95	1.01
	October	0.94	1.11
	November	0.95	1.17
	December	1.02	1.23
1991	January	0.96	1.26
	February	0.88	1.23
	March	0.90	1.21

Source: Scotia McLeod, Securitized Finance Department CMHC – MAC 1991

Mortgage interest rates have declined by approximately 300 basis points since they peaked at 14.25 per cent during the second quarter of 1990. During the same time, mortgage credit demand began to shift from short-term to long-term. In January 1991, 37 per cent of NHA mortgagors preferred five year terms compared to 18 per cent a year earlier. This trend is expected to impact positively on the growth of supply of long-term MBS. Since the implementation of the Canadian NHA Mortgage-Backed Securities program until March 1991, more than $ 500 million have been issued in ranges between 5 to 10 years, and $ 80 million in the over ten year terms. Between 1987 and 1990, NHA MBS has issued approximately 10 per cent of the total activity in ranges between 5 to 10 years. This is closely comparable in proportion to Government of Canada bonds, with 5 to 10-year maturity accounting for 11 per cent of total GOC activity.

LONG-TERM NHA MBS: A Response To Consumer Demands

In recent years, by focusing on short-term mortgage loans, homebuyers and homeowners speculated on the future level of interest rates. If interest rates were higher when renewal time rolled around, the increase in the monthly mortgage payments is sometimes difficult to handle.

The longer-term NHA-insured mortgage can help avoid that risk. A longer-term mortgage provides the homeowner with:

- the peace of mind obtained from a predictable monthly payment of combined principal and interest up to a maximum of 25 years; and

- the flexibility to benefit from a drop in interest rates anytime after the first three years.

Mortgage-Backed Securities: A Tool To Supply Long-Term Mortgage Funds

Recently, because the demand for long-term mortgage credit has increased, lenders have been interested in providing long-term mortgages to homeowners. Several Trust companies and Banks have used various financial techniques, such as SWAPs (a SWAP is a contractual agreement between two parties to exchange a series of cash flows for an agreed term) or NHA Mortgage-Backed Securities, to increase the supply of mortgage funds in the long-term range. The NHA Mortgage-Backed Securities program affords this opportunity to any financial institution for the following reasons.

First, the economic situation increases the risk for financial institutions that have been exposed to a softening in the real estate market. Some financial institutions have seen the downgrading of

their credit rating, and this has contributed to an increase in the cost of their funds on the capital market. Using the NHA MBS program, financial institutions can raise long-term funds at a lower cost. Indeed, the NHA MBS program offers a financial institution the opportunity to raise long-term funds with the same credit rating as the Government of Canada.

Secondly, an Issuer of NHA Mortgage-Backed Securities is not required by the Office of the Superintendant, Financial Institutions to keep a portion of capital to support the risk because an NHA MBS is composed only of NHA insured loans, which are weighted as a zero risk by the Office of the Superintendent of Financial Institutions (OSFI). This is based on their new capital standard.

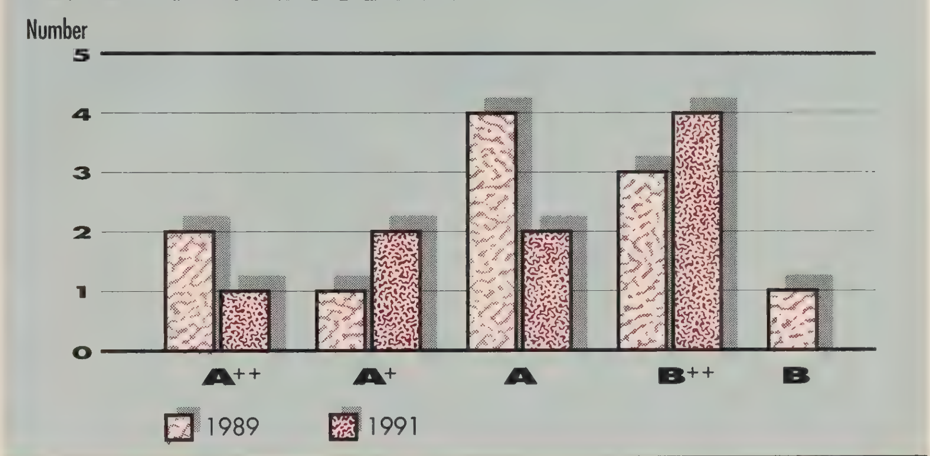
Thirdly, with the current yield curve, an MBS Issuer can obtain long-term funds at a lower cost by using NHA Mortgage-backed Securities. In comparison, the benchmark long term corporate bonds with "AA" and "A" credit rating in ranges between 10 to 20 years are issued about 100 to 150 basis points over the Canada Bonds, while MBS can be issued between 90 and 105 basis points above that level. Moreover, the lower level of interest rates offers the financial industry a better opportunity to raise capital at lower cost over the long-term period in fixed income securities market such as NHA MBS than in the equity market.

From an investor point of view, the prepayment option on MBS open pools may reduce the attractiveness of investing in the longer-term range, because prepayments create cash flow uncertainties. In addition, early prepayments increase the reinvestment risk to the investor. However, NHA MBS experience shows that prepayments have been essentially linked to mortgagors who have moved and sold their residences. Moreover, Canadian NHA MBS prepayments have been at a very low level during the four years of the program, averaging approximately 5 per cent. This can be explained by the fact that during the latter part of the 1980s, mortgage rates have not fluctuated as much as in the early part of the 1980s. However, while mortgage rates declined by approximately 300 basis points from a year earlier, prepayment behavior has not changed substantially.

Co-authored by Doug Hughes, former Director, MBS Centre and Marc Godbout, Senior Administrator, MBS Centre.

CMHC's commitment to providing Canadians with access to longer-term mortgage financing is demonstrated through the NHA Mortgage-Backed Securities (NHA MBS) program introduced more than four years ago.

Ratings Distribution – Trust Industry



Source: Canadian Bond Rating Service CMHC–MAC 1991

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Marc Pellerin, Market Analysis Centre, CMHC, 682 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 756-0777.

Mortgage Market Trends is a quarterly publication. Enquiries regarding subscription should be directed to: The Manager, Marketing & Communications, Market Analysis Centre, CMHC, 682 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2286 or FAX: (613) 745-1741.

Aussi disponible en français

NHA Mortgage-Backed Securities First Quarter Issues – January 1991 to March 1991

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (y)
MONTH OF ISSUE: JANUARY 1991						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96403068	Royal Trust Company	6,000,796.74	11.625	November 1, 2000	12.76	23.93
96403100	Bayshore Trust Company	12,002,696.58	10.750	January 1, 1996	12.91	24.43
96403142	Shoppers Mortgage and Loan Corporation	12,013,186.68	10.500	January 1, 1996	12.80	24.59
96403159	Shoppers Mortgage and Loan Corporation	3,087,238.58	10.250	December 1, 1995	11.95	24.62
96403167	Vancouver City Savings C.U.	12,270,355.40	11.000	January 1, 1992	13.17	24.17
96403175	Firstline Trust Company	15,000,015.37	11.125	January 1, 1996	12.42	23.35
96403183	Firstline Trust Company	10,000,517.92	10.750	January 1, 1996	12.72	23.82
96403191	Firstline Trust Company	4,854,388.13	9.500	January 1, 2001	10.07	23.60
96403217	Firstline Trust Company	6,000,320.92	10.875	January 1, 1994	12.86	22.97
96403225	Firstline Trust Company	2,242,820.75	10.875	November 1, 1992	13.25	20.76
96403233	Firstline Trust Company	2,218,164.45	10.750	December 1, 1994	12.85	18.12
96403241	Firstline Trust Company	2,673,746.20	10.750	December 1, 1996	12.82	18.91
SOCIAL HOUSING POOLS						
99001778	Toronto-Dominion Bank	7,054,573.20	10.750	December 1, 1996	11.50	22.58
99001786	Toronto-Dominion Bank	17,356,820.84	10.750	December 1, 1996	11.46	29.65
99001794	CIBC Mortgage Corporation	18,129,705.76	10.750	December 1, 1996	11.53	29.27
99001802	Bank of Nova Scotia	2,087,743.03	10.000	April 1, 1994	11.54	27.25
99001810	Bank of Nova Scotia	12,044,596.95	10.750	December 1, 1996	11.42	31.39
99001885	Fiducie Desjardins Inc.	4,041,695.83	10.750	December 1, 1996	11.55	28.63
99001919	Toronto-Dominion Bank	26,379,000.33	10.125	March 1, 1993	10.88	27.17
99001976	Royal Bank of Canada	2,915,834.27	10.750	January 1, 1996	11.80	29.58
99001984	Royal Bank of Canada	5,302,028.39	10.750	January 1, 1996	11.57	21.58
MONTH ISSUE: FEBRUARY 1991						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96403258	Royal Trust Company	5,001,200.63	11.125	January 1, 2001	12.77	24.03
96403266	Central and Guaranty Trust Corporation	8,958,857.94	10.000	December 1, 1995	13.46	24.33
96403274	Bayshore Trust Company	9,082,617.62	10.625	February 1, 1996	12.56	24.72
96403282	Fortis Trust Corporation	2,466,875.31	10.375	January 1, 1996	13.54	23.94
96403290	Firstline Trust Company	5,000,312.80	10.750	January 1, 1996	12.43	19.58
96403308	Firstline Trust Company	5,000,685.18	10.625	January 1, 1993	12.63	23.78
96403316	Firstline Trust Company	4,002,441.56	10.625	January 1, 1994	12.42	23.66
96403324	Firstline Trust Company	5,500,670.61	10.125	January 1, 1996	11.40	22.10
96403332	Firstline Trust Company	5,000,063.53	10.125	January 1, 1994	11.33	23.79
96403340	Firstline Trust Company	15,000,273.01	10.625	January 1, 1996	12.19	24.32
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600044	Firstline Trust Co.	8,192,989.70	10.375	January 1, 1996	11.47	34.39
SOCIAL HOUSING POOLS						
99001927	Toronto-Dominion Bank	10,473,346.55	10.375	February 1, 1996	11.12	30.00
99001935	Bank of Nova Scotia	10,830,264.10	10.500	February 1, 1996	11.14	29.62
99001943	Bank of Nova Scotia	2,927,533.45	10.375	October 1, 1995	11.65	25.00
99001950	CIBC Mortgage Corporation	29,875,220.86	10.375	February 1, 1996	11.11	28.73
99001968	Bank of Nova Scotia	3,819,526.14	10.000	February 1, 1996	11.30	28.00
99001992	Bank of Nova Scotia	3,275,122.28	10.375	January 1, 1996	11.30	34.92
99002024	Peoples Trust Company	2,529,759.53	10.250	November 1, 1995	12.86	20.92
99002032	Peoples Trust Company	6,073,625.57	10.250	November 1, 1995	12.84	28.42
99002065	Royal Bank of Canada	7,542,967.44	10.500	February 1, 1996	11.15	27.17
MONTH OF ISSUE: MARCH 1991						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96403209	Firstline Trust Company	4,000,387.79	9.875	April 1, 1994	12.03	19.76
96403357	Shoppers Mortgage and Loan Corporation	7,804,515.10	9.000	March 1, 1994	10.57	24.17
96403365	Shoppers Mortgage and Loan Corporation	4,241,922.95	9.000	March 1, 1994	10.78	24.22
96403373	Shoppers Mortgage and Loan Corporation	2,535,182.67	9.375	February 1, 1994	12.71	24.30
96403381	Shoppers Mortgage and Loan Corporation	5,607,065.84	9.625	February 1, 1994	12.23	24.70
96403399	Shoppers Mortgage and Loan Corporation	2,161,019.15	9.250	March 1, 1996	10.29	23.84
96403407	Shoppers Mortgage and Loan Corporation	2,058,505.47	9.250	February 1, 1996	11.45	24.66
96403415	Shoppers Mortgage and Loan Corporation	2,206,317.98	9.625	February 1, 1996	12.58	24.66
96403423	Firstline Trust Company	12,000,164.88	10.000	April 1, 1996	11.47	23.79
96403431	Firstline Trust Company	2,207,612.71	10.000	April 1, 1994	11.77	22.86
96403449	Firstline Trust Company	9,000,019.02	10.000	April 1, 1996	11.56	23.84
96403456	Firstline Trust Company	3,001,285.30	9.875	March 1, 1993	11.86	23.63
SOCIAL HOUSING POOLS						
99001752	Maritime Life Insurance Corporation	3,913,528.85	9.000	March 1, 1996	12.04	20.25
99002008	Toronto-Dominion Bank	23,673,028.70	10.375	March 1, 1996	11.00	28.70
99002016	Bank of Nova Scotia	19,414,839.29	10.250	March 1, 1996	10.98	31.58
99002040	CIBC Mortgage Corporation	22,828,004.48	10.250	March 1, 1996	11.03	28.01
99002057	Sun Life Assurance of Canada	15,859,153.73	9.500	April 1, 1993	10.99	26.92
99002073	Vancouver City Savings C.U.	2,931,509.46	10.250	March 1, 1996	11.02	29.92
99002107	Royal Bank of Canada	6,620,480.67	10.500	March 1, 1992	11.32	26.92
99002115	Royal Bank of Canada	7,813,337.62	9.500	March 1, 1996	11.04	21.75
99002123	Royal Bank of Canada	3,652,028.46	9.500	March 1, 1996	11.03	29.92
99002131	Royal Bank of Canada	3,473,579.44	9.500	August 1, 1994	11.09	29.92
99002156	Firstline Trust Company	4,208,235.45	9.875	February 1, 1992	11.11	34.61

C M H C M O R T G A G E M A R K E T

TRENDS

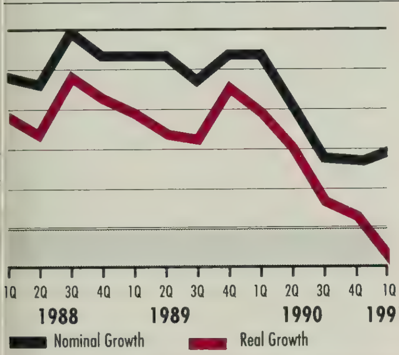
ARKET ANALYSIS CENTRE JULY 1991

ORTGAGE LENDING

ORTGAGE CREDIT GROWTH REMAINED WEAK URING THE FIRST QUARTER OF 1991

ortgage credit outstanding grew only 1.9 per cent during the first quarter of 1991, up slightly from e 1.7 per cent growth rate experienced in the fourth quarter of 1990. After adjusting for inflation, e total value of mortgage credit dropped by 0.8 per cent during the first quarter of 1991 compared 0.2 per cent in the preceding quarter as the implementation of the GST boosted inflation.

sidential Mortgage Credit Growth minal and Real *(from previous quarter)*



ce: Bank of Canada CMHC – MAC 1991

arket Share of Residential Mortgage Credit

	1Q90	4Q90	1Q91
nks	51.8%	53.4%	53.8%
ıst	39.5%	37.8%	37.5%
e	8.2%	8.2%	8.2%
les & Loan	0.5%	0.6%	0.6%

ce: Bank of Canada CMHC – MAC 1991

Nominal mortgage credit growth remained under the 2 per cent mark for a third consecutive quarter as housing activity continued to decline during the first three months of the year. Housing starts averaged 96,000 units on a seasonally adjusted basis during the first quarter of 1991. This compares with 164,000 and 147,000 units for the third and the fourth quarter of 1990 respectively.

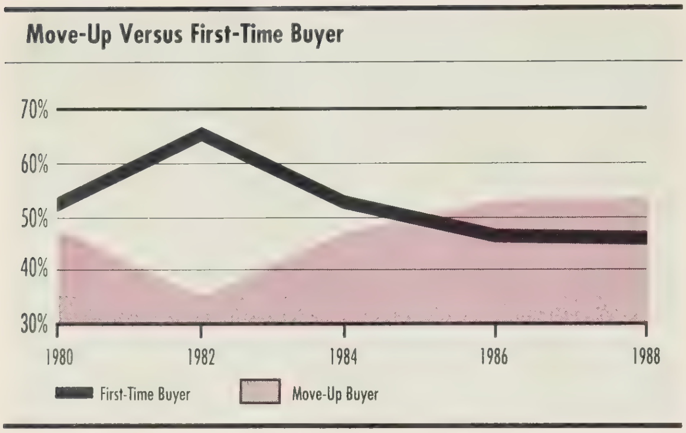
The weakness of mortgage credit growth reflects substantially sluggish growth in mortgage lending activity by the trust companies resulting in a further drop in market share to 37.5 per cent in the first quarter from 39.5 per cent a year ago. Banks' market share continued to climb to reach 53.8 per cent during the first quarter compared to 51.8 per cent for the same period last year. Life Insurance and Finance companies maintained their market share at 8.2 and about .5 per cent respectively over the same period.

Recent housing indicators suggest that mortgage credit growth will strengthen in the second quarter thanks to lower interest rates experienced since the beginning of the year. Dwelling starts rebounded to 128,000 and 150,000 units in April and May respectively. According to the Canadian Real Estate Association, nation-wide residential sales volumes jumped 29.4 per cent in March and 65.4 per cent in April from a year ago after dropping throughout the first two months of the year. Also, average selling prices of homes based on MLS Survey increased 8.1 and 10.5 per cent in March and April respectively from their year ago levels in sharp contrast to declines of 4 per cent or more posted in January and February.

Better economic conditions resulting from lower interest rates will thus favor stronger mortgage lending growth for the rest of the year and throughout 1992. However, high debt levels of households could slow down mortgage credit increases in 1991.

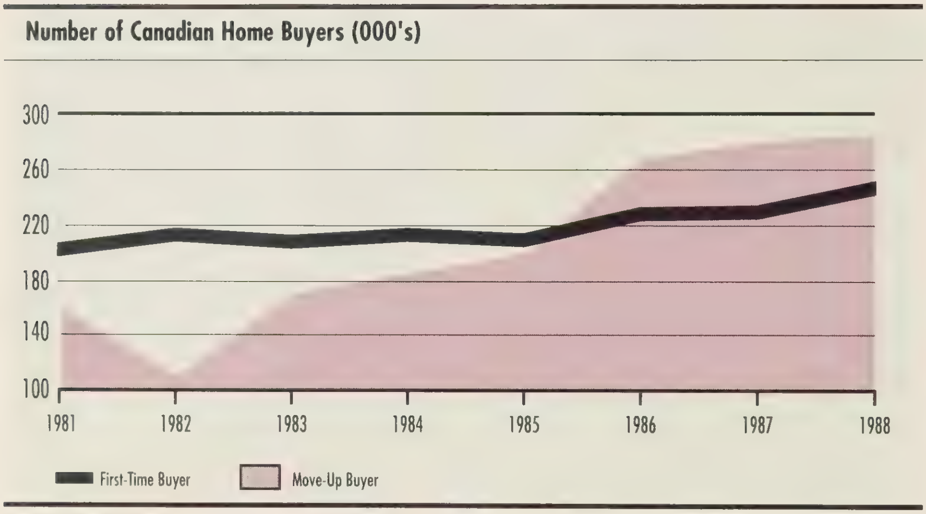
FIRST-TIME BUYERS DOMINATE THE CURRENT HOUSING MARKET

The underlying trend in the housing market over the next ten years will be greater demand from second and third time buyers due to the aging of the population. However, in the short term, the economic cycle should have a greater impact on the mixture of home buyers than the demographics. When the economic cycle is high, the move-up buyer tends to be predominant. As demand normally increases faster than supply during an economic upturn, house prices increase and existing homeowners profit from gains in equity, which they can use to trade up to a larger home. On the other hand, many potential first-time buyers find homeownership unaffordable. When the economy turns downward, move-up buyers tend to retreat from the market as they perceive their equity falling and find it more difficult to sell their current homes. First-time buyers take advantage of the more affordable prices and remain in the market.



Source: Statistics Canada HIFE Survey CMHC – MAC 1991

In the recession of the early 1980's, the number of move-up buyers declined dramatically, dropping 41 per cent in 1982, from 166,000 to 108,000. First time buyers continued to purchase homes at the same general level. This shifted the percentage of first-time buyers from 52 per cent to 66 per cent of the market. This pattern is expected to repeat itself in the current cycle, with first-time buyers increasing in 1991, while move-up sales remain low. First-time buyers should be in the majority in 1991 and possibly in 1992, as lower interest rates and prices make housing more affordable and many renters are in a position to buy for the first time.



Source: Statistics Canada HIFE Survey CMHC – MAC 1991

Evidence thus far on the 1991 market is that it is very much a first-time buyers market. Lower priced homes are selling well and buyers are very resistent to any increases in prices.

Growth in the first-time market, however, will be slower in the 1990's than in the 1980's because of the aging of the population. Approximately 62 per cent of Canadian home buyers purchase their first home between the ages of 25 and 34. This age group is expected to decline by 11.6 per cent over the next ten years, as compared to 12.2 per cent growth for this age group during the 1980's. By comparison, the 35 to 44 age group is expected to grow by 13.8 per cent and the 45 to 54 age group by 45.2 per cent during the 1990's. For this reason, it is probable that after 1992, the second and third time buyer will again be in the majority and remain so throughout the rest of the decade.

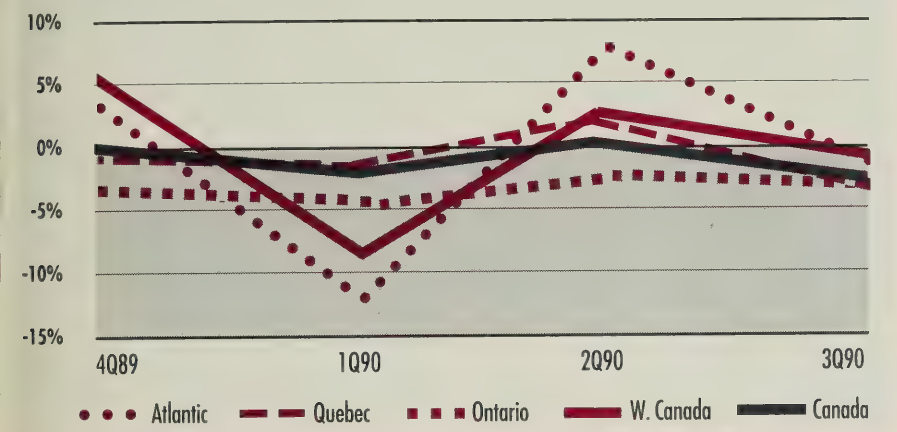
MARKET SHARE OF LENDING INSTITUTIONS AND REGIONAL DISTRIBUTION OF MORTGAGE CREDIT

MORTGAGE CREDIT ACTIVITY

Mortgage credit outstanding declined in every region in the third quarter of 1990. This followed increases in every region except Ontario in the second quarter of 1990. The lowest decline in the third quarter of 1990 occurred in Western Canada at 1.3 per cent followed by the Atlantic provinces at 1.6 per cent. Ontario at 3.9 per cent followed by Quebec at 3.8 per cent recorded the highest mortgage credit decline. The relatively small decline in mortgage credit activity in the Atlantic region is consistent with the GDP growth for the same quarter which was positive for all the provinces of the region. Similarly in Western Canada, the relatively better economic conditions in Alberta and British Columbia resulting in relatively stronger housing markets explain the lowest decline of mortgage credit.

Compared to the second quarter of 1990, Chartered Banks and Credit Unions recorded a positive growth in every region in the third quarter. The growth rates were the highest in the Atlantic region at 3.2 and 5.6 per cent, and the lowest in Quebec at 2 and .7 per cent, respectively. Mortgage credit by Trust Companies, in contrast, declined in every region with Ontario and Quebec recording the largest decline at 3.5 and 3.4 per cent, respectively. During the same period, mortgage credit by Loan Companies also declined in every region except the Atlantic which grew by 9.6 per cent. The largest decline occurred in Ontario at 13.1 per cent.

Growth of Outstanding Mortgage Credit[1], by Region (previous quarter % change)



[1] includes: Banks, Trust, Mortgage Loan Companies and Credit Unions.
Source: Bank of Canada — CMHC – MAC 1991

Share of Market by Region by Institution, 3Q1990

	Banks	Trust Co.	Loan Co.	C. Unions	TOTAL
Atlantic	54.9%	32.6%	7.5%	5.0%	4.8%
Quebec	41.0%	20.6%	0.4%	38.0%	22.0%
Ontario	51.6%	40.9%	2.5%	5.0%	47.1%
W. Canada	52.9%	29.3%	1.1%	16.7%	26.2%
Canada	49.8%	33.0%	1.9%	15.4%	100%

Source: Bank of Canada — CMHC – MAC 1991

REGIONAL DISTRIBUTION OF MORTGAGE CREDIT

Changes in regional share of outstanding mortgage credit over the last five years mirror fairly well regional fluctuations in housing starts. The regional share of outstanding mortgage credit has been relatively stable in the Atlantic region at about 5 per cent of the Canadian total between 1985 and 1990[1]. Quebec's share, on the other hand, increased from 21.5 per cent in 1985 to an average of 23.5 per cent in 1988 and then declined slightly to 22 per cent in 1990. During the same period, Ontario's share steadily increased from an average of 37.6 per cent in 1985 to 47.3 per cent in 1990. The regional share of mortgage loan activity in Western Canada steadily declined from a yearly average of 36 per cent in 1985 to 26 per cent in 1990. This decrease relates to the decline in the housing market in Alberta and B.C. up to 1987. By the third quarter of 1990, the combined share of Ontario and Quebec accounted for 69 per cent of the total outstanding mortgage credit. The regional share figures for the third quarter of 1990 are generally similar to the yearly averages. The respective figures are: 4.8 per cent in the Atlantic region, 22 per cent in Quebec, 47.1 per cent in Ontario and 26.2 per cent in Western Canada.

Annual Percentage Changes in Market Share by Region by Institution, 3Q90/3Q89

	Banks	Trust Co.	Loan Co.	C. Unions	TOTAL
Atlantic	4.2	-5.3	0.4	0.7	-0.1
Quebec	2.9	-1.1	0.0	-1.8	-0.5
Ontario	2.9	-2.4	-0.4	-0.1	0.3
W. Canada	0.5	-1.2	-0.1	0.8	0.3
Canada	2.4	-1.8	-0.2	-0.4	0.0

Source: Bank of Canada — CMHC – MAC 1991

REGIONAL MARKET SHARE OF LENDING INSTITUTIONS

The Chartered Banks continue to hold a substantial share of the mortgage credit market. This dominance has been steadily increasing both at the national level and in every region of the country. The total market share of Chartered Banks rose by about 10 per cent between 1982 and 1990, most notably in the Atlantic

continued on page 4

continued from page 3

and Western provinces, while that of Trust Companies and Credit Unions has relatively declined. By the third quarter of 1990, Chartered Banks accounted for 49.8 per cent of the total outstanding mortgage credit in Canada followed by Trust Companies with 33 per cent. Credit Unions and Mortgage Loan Companies accounted for 15.4 and 1.9 per cent of the total national market, respectively.

On a regional basis, Chartered Banks held more than 50 per cent of the total outstanding mortgage credit in all the regions except Quebec (41 per cent) in the third quarter of 1990. During the same period, the share of Trust Companies in the total mortgage credit activity, although declining, was the second largest in every region except Quebec. The regional shares of Trust Companies in the third quarter of 1990 were 33 per cent in the Atlantic region, 21 per cent in Quebec, 41 per cent in Ontario and 29 per cent in Western Canada. The activity of Mortgage Loan Companies was the strongest in the Atlantic region at 7.5 per cent and the weakest in Quebec at .4 per cent in the third quarter of 1990. Credit Unions continued to maintain their relative regional strength in Quebec though had a lower share compared to the preceding year, declining to 38 per cent from 40 per cent.

In terms of yearly percentage changes of market share, the share of Chartered Banks increased in every region from the third quarter of 1989 to the same quarter of 1990. The highest gain was recorded in the Atlantic region followed by Quebec and Ontario. During the same period, the share of Trust Companies declined in every region, more significantly in the Atlantic provinces and Ontario. The market share of Mortgage Loan Companies remained almost the same with only slight declines. The share of Credit Unions, on the other hand, increased in the Atlantic region and the West but declined in Quebec by 1.8 per cent.

[1] 1990 figures include the first three quarters only.

INDICATORS OF MORTGAGE LENDING ACTIVITY

NHA and Conventional Loans Approved (thousands of dollars)

	Banks		Life		Trust		Loan Companies		Other		TOT	
	Units	$000	Units	$000	Units	$000	Units	$000	Units	$000	Units	$0
1989	400,393	31,670,920	91,975	4,276,572	216,101	16,775,248	73,112	6,205,826	13,636	894,430	795,217	59,822,9
1990	373,267	29,227,383	69,257	3,348,579	220,380	16,165,468	58,151	5,005,475	13,038	840,317	734,093	54,587,2
1991	81,121	6,410,180	23,034	1,162,022	39,448	2,734,030	15,950	1,385,119	4,049	269,013	163,602	11,960,3

NOTE: 1991 figures represent the first quarter only.

Sales and purchases of insured NHA mortgages (millions of dollars) [1]

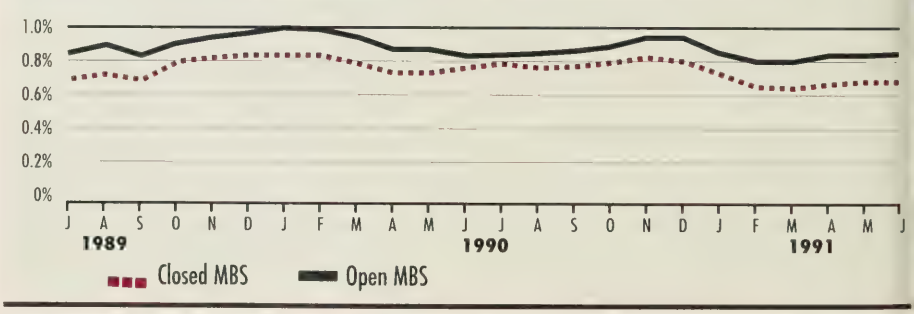
	Chartered Banks	Life Insurance	Trust Companies	Loan & Other Companies	Pension Funds	Corp.	Unicorp.	TOT
Sales - private secondary market								
1989	772.5	74.7	82.9	14.6	–	52.7	–	997
1990	747.2	31.7	7.2	6.8	–	28.7	–	821
1990 1Q	180.6	31.7	0.1	–	–	8.6	–	221
1990 2Q	129.1	–	–	6.8	–	11.4	–	147
1990 3Q	200.1	–	0.7	–	–	2.0	–	202
1990 4Q	237.4	–	6.4	–	–	6.7	–	250
1991 1Q	178.2	23.2	4.8	–	–	19.7	–	225
Purchases - private secondary market								
1989	55.7	49.2	93.7	689.8	36.3	57.3	15.4	997.
1990	62.6	36.4	75.3	628.5	0.4	1.1	17.3	821.
1990 1Q	3.0	31.7	0.1	177.4	0.2	0.4	8.2	221.
1990 2Q	38.9	–	11.0	97.0	–	–	0.4	147.
1990 3Q	1.6	3.3	–	195.7	0.1	–	2.1	202.
1990 4Q	19.1	1.4	64.2	158.4	0.1	0.7	6.6	250.
1991 1Q	23.4	2.3	20.9	157.2	0.2	18.7	3.2	225.

1. Data for initial sales and purchases only. Subsequent sales and purchases are excluded.
Lending institutions are included under the appropriate category whether or not they are Approved Lenders under the National Housing Act.

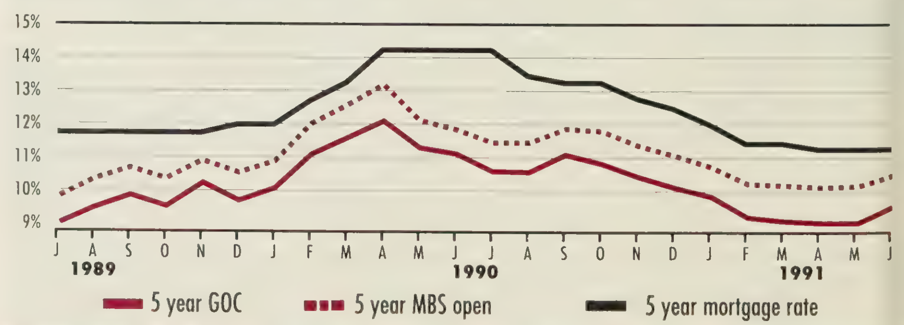
Mortgage-Backed Securities (millions $)

1988	$ millions	1989	$ millions	1990	$ millions	1991	$ millions
1Q	110.3	1Q	335.5	1Q	557.3	1Q	505.4
2Q	107.6	2Q	389.1	2Q	582.2	2Q	644.3
3Q	254.2	3Q	630.1	3Q	365.5		
4Q	301.1	4Q	585.2	4Q	597.6		

Mortgage-Backed Securities historical spread analysis (MBS over GOC, 5 year maturity)



Historical interest rate analysis



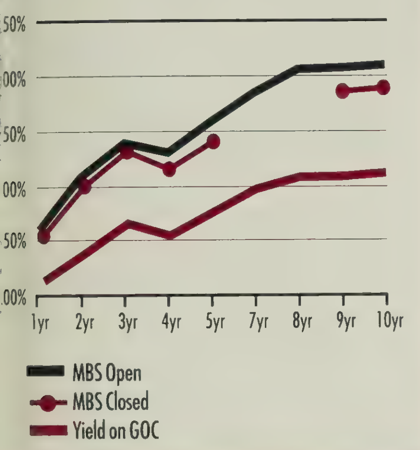
Source: CMHC – MAC 1991

HA MORTGAGE-BACKED SECURITIES

STRONG GROWTH IN MORTGAGE-BACKED SECURITIES IN SECOND QUARTER OF 1991

HA Mortgage-Backed Securities (MBS) activity posted an all time record with 66 issues for a total of $ 644.3 million in the econd quarter of 1991, up from 64 issues totalling $ 505.4 million in the preceding quarter. Since the inception of the NHA MBS rogram in 1987, 625 MBS pools have been issued. The outstanding amount stood at $ 6,421.6 million at the end of June 1991.

HA Mortgage-Backed Securities eld Analysis – June 28, 1991



urce: Burns Fry Limited CMHC – MAC 1991

HA Mortgage-Backed Securities Yield nalysis – Market Closing July 2, 1991

GOC description				
upon te	Maturity Date	Type of MBS	Spread Basis pts.	Yield
9.00%	06/93	Open	63	9.97%
9.25%	10/94	Open	69	10.14%
10.75%	12/95	Open	75	10.60%
10.75%	12/95	Closed	62	10.47%
9.25%	10/96	Open	78	10.53%
9.25%	10/96	Closed	65	10.40%
9.75%	06/01	Open	92	11.01%

urce: Telerate; average for MBS traders CMHC – MAC 1991

The strong second quarter numbers were largely the result of issues totalling $ 279.7 million in June although activity was relatively good in April and May with issues totalling $ 183.6 and $181 million respectively. Social housing represented roughly 51 per cent of all issues in dollar terms with 36 of the 66 new pools during the second quarter.

The gradual recovery of the housing sector resulting from the continuous decline in interest rates since the beginning of the year is an important factor explaining the strong rebound of NHA MBS issues for private units especially in dollar amounts. One-year mortgage rates declined to 10 per cent during the second quarter from 10.75 per cent at the end of the first quarter and 12.50 per cent in December 1990. Five-year mortgage rates dropped by 100 basis points in the first quarter of 1991 and edged down futher by 25 basis points during the second quarter to 11.25 per cent compared to 12.50 per cent at the end of 1990. Generally, it takes approximately one to two quarters to see a pickup in housing starts following a drop in interest rates and one additional quarter before an acceleration in mortgage credit demand associated to new housing occurs.

Anecdotal evidence indicates that lenders issued more MBS as they had difficulties attracting money in long-term deposits while demand for long-term mortgages was relatively high.

The high level of issues also reflected that NHA MBS continued to be a valuable source of funds for lenders. The spread between 5-year mortgage rates and 5-year Government of Canada Bonds (GOC), which declined slightly to around 190 basis points during the second quarter from 200 basis points in the first quarter, still remained high enough to provide acceptable profitability to lenders.

Yield differentials on NHA MBS and GOC for the 5-year maturity remained fairly stable during the second quarter compared to the first one. The spread between the yield on 5-year term MBS with non-prepayable options (Closed MBS) and the yield on 5-year GOC's stood approximately at 68 basis points over the last three months. Similarly, the yield on 5-year MBS with prepayable options (Open MBS) was approximately 80 basis points above the yield on the 5-year GOC's during the same period.

Higher and sustained mortgage credit growth will allow further reductions in yield differentials between MBS and GOC's. Investors prefer more liquid assets for the same level of risk especially, when governments are in competition with the private sector to raise funds in order to finance large deficits.

Fifty-six per cent of all MBS were issued in Ontario during the first six months of the year, while British Columbia, the second market in importance in Canada, accounted for 24.6 per cent. The Prairies region was the third accounting for 8.8 per cent of issues in dollar terms followed by Québec and the Atlantic region with 6.3 and 4.3 per cent respectively. This compares with the following cumulative figures - in per cent - since the inception of the MBS program in 1987: Ontario 54.5, British Columbia 19.7, Prairies 14.4, Québec 7 and Atlantic 4.4.

PREPAYMENT OPTIONS AND RISK

Financial markets have witnessed the introduction of a broad range of financial instruments during the past two decades. The introduction of these new instruments has spawned the growth of a large literature, both theoretical and empirical, dealing with various aspects of the instruments. Mortgage-Backed Securities are one financial instrument which has not been excluded from this growth in research.

A paper by Yuming Fu [1] reviews existing studies on the subject of mortgage prepayment and mortgage pricing. The paper discusses the uses of a prepayment function in an option-pricing model to evaluate a mortgage or a mortgage pool. The prepayment behaviour of individuals and of a mortgage pool are reviewed providing a theoretical foundation for the specification and estimation of a prepayment function. The following provides a brief overview of the paper's principal contents.

The option pricing model is a technique developed to value a security subject to contingent claims. More specifically, cash flow or interest rate movements, both of which are uncertain, can influence the value and hence price of a security. This technique is particularly appropriate for valuing mortgages or mortgage-backed securities as this type of financial instrument is especially subject to the preceding types of contingent claims. A principal difference between the cash flow of a mortgage and that of a non-callable corporate bond or Treasury security is that the typical residential mortgage may be prepaid at some time during its life. Most residential mortgages carry an unlimited call option, allowing borrowers to prepay their mortgage at any time. In other words, the important difference between mortgage securities and most other fixed-income securities is the prepayment risk - that is , the risk that the security will be called away if mortgage borrowers exercise their call option and prepay their mortgages. Depending whether the mortgage carries a discount, premium or current coupon, this prepayment option can have a significant effect on the security yield. Consequently, option theory is useful in explaining the yield spreads observed between the yield on a mortgage-backed security and on a comparable fixed income security.

The paper begins by presenting a general type of option model and then applying it to mortgage pricing. To price a single mortgage, its regular payments are specified as a constant (fixed-rate mortgage) and its unscheduled payments (prepayments) as a function of the borrowers behaviour. The author then discusses the prepayment behaviour of a perfectly rationale individual under conditions of no transaction costs. The model is then expanded to address prepayment behaviour when transaction costs as well as variable mortgage rates are incorporated.

...cash flow or interest rate movements, both of which are uncertain, can influence the value and hence price of a security.

The three main reasons for a borrower to prepay are then reviewed. These include refinancing when the current mortgage rate declines below the existing mortgage rate, the sale of the home, when either the due-on-sale clause is enforced or the home buyer chooses not to assume the existing mortgage, and refinancing to liquidate some home equity. The first reason, refinancing to capture interest-saving opportunity is an important cause of prepayment for high-coupon mortgages, and is probably most sensitive to interest rate changes. To understand the optimal refinancing strategy of a borrower, the author presents the findings of a number of studies which assess prepayment behaviour under conditions of a predictable and stochastic interest rate environment. The strategy is defined as an optimal interest rate differential (IRD) between the existing mortgage and a new mortgage at which a refinancing takes place. The optimal refinancing strategy is affected by a number of factors such as the predictability of the interest rate environment, the volatility of interest rates, the size of the transaction costs, EHP (the length of time the borrower expects to payoff his or her mortgage), the term structure of interest rates, etc.

A second important determinant of the prepayment rate which is discussed is the housing turnover rate. This is especially so for low-coupon mortgage pools. Housing mobility is an important determinant of housing turnover and of the EHP of borrowers. A mortgage pool consisting of relatively mobile borrowers tends to experience a higher rate of housing turnover and of prepayment. Furthermore, mobile borrowers tend to have relatively short EHP and their refinancing responses are more or less sensitive to interest-rate changes depending on whether a refinancing option is purchased with a higher coupon or with points. A recent study which is highlighted in the paper found that the mobility of a household tends to be positively correlated with changes in family size, permanent income, education level, and changes in the family head. However, mobility is

ound to be adversely affected by the mount of surplus (defined as the dif- erence between book value and market alue) in the mortgage a household wns. In effect, the potential loss of nortgage surplus contributes to the ransaction costs of moving, and thus educes the mobility of households.

A third factor, the equity liquidation lecision also has an important effect on he prepayment decision. This is based ipon the over all investment and con- umption decision of the borrower, and herefore is related to factors such as the tage of the life-cycle, income path and nvestment portfolio management of he mortgage holder. The author sug- ests that the probability of an equity- iquidation refinancing should be orrelated with the amount of housing quity, the early stage of life cycle when onsumption demand is high, an ncome path that tilts to the future, and he availability of good investment pportunities. The findings of one tudy presented in the paper indicate hat the prepayment rate for those with ar equity between 15 per cent and 25 er cent is more sensitive to interest rate hanges than the prepayment rate for hose with higher equity.

The factors influencing the aggregate repayment behaviour of a mortgage ool are then discussed. This is de- endent upon the prepayment behav- our of individual borrowers and on the omposition of the pool, which in turn re determined by the distribution of EHP among the borrowers and their ransaction costs. The impact of trans- iction costs, the contractual feature of he pool as well as the prepayment experience of the pool are then eviewed. The author notes that a pool aving experienced a long period of nterest rate decline in its early life tends to have borrowers remaining whose refinancing responses are less sensitive to interest-rate changes, since those with shorter EHP, larger outstanding balances, and smaller transactions costs are more likely to have prepaid. On the other hand, a period of high level of interest rates will make the current prepayment rate more sensitive to interest-rate decline, since some borrowers would have postponed their home sales due to the interest-rate lock-in effect, and therefore, more borrowers are currently expecting to move as soon as interest rates decline.

Finally, various studies which have estimated prepayment functions are discussed. The functions in these studies used two components, one representing the effect of seasoning, and the other, the effect of covariates. The seasoning effect is modeled by a hazard function which gives a profile of prepayment rates representing the prepayments that will occur as mobile borrowers move and liquidity-constrained borrowers liquidate their equities. The covariate effect modifies the seasoning effect as interest rate changes, borrower's equities build up, prepaid principal accumulates, and other relevant variables change. The parameters of these functions reflect the general mobility, investment-consumption pattern, and refinancing transactions costs of the borrowers in the pool.

...a period of high level of interest rates will make the current prepayment rate more sensitive to interest-rate decline...

[1] Yuming Fu, *Mortgage Pricing and Prepayment Behaviour: A Literature Review,* Canadian Real Estate Research Bureau Working Paper # 89-ULE-014, Faculty of Commerce and Business Administration, University of British Columbia, June 1989.

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Marc Pellerin, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 756-0777.

Mortgage Market Trends is a quarterly publication. Enquiries regarding subscription should be directed to: The Manager, Marketing & Communications, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2286 or FAX: (613) 745-1741.

NHA Mortgage-Backed Securities Second Quarter Issues – April 1991 to June 1991

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: APRIL 1991						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96403464	BAYSHORE TRUST COMPANY	14,999,942.75	9.875	April 01, 1996	11.52	24.92
96403472	PEOPLES TRUST COMPANY	2,280,048.84	9.750	March 01, 1996	12.42	24.50
96403480	SHOPPERS MORTGAGE AND LOAN CORP.	5,576,968.10	9.250	March 15, 1994	10.67	24.83
96403498	SHOPPERS MORTGAGE AND LOAN CORP.	3,281,705.52	9.750	April 01, 1996	11.48	24.75
96403506	SHOPPERS MORTGAGE AND LOAN CORP.	2,117,133.34	9.625	March 01, 1996	10.84	24.58
96403522	FIRSTLINE TRUST COMPANY	4,761,503.17	10.500	July 01, 2003	12.84	24.75
96403530	FIRSTLINE TRUST COMPANY	5,000,083.49	10.250	April 01, 1996	11.26	19.17
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500020	FIRSTLINE TRUST COMPANY	40,000,269.87	10.250	April 01, 1996	11.27	24.83
SOCIAL HOUSING POOLS						
99002081	TORONTO-DOMINION BANK	18,342,537.98	9.375	April 01, 1996	10.08	28.90
99002099	BANK OF NOVA SCOTIA	11,713,932.38	9.500	April 01, 1996	10.14	28.92
99002149	CIBC MORTGAGE CORPORATION	19,815,034.07	9.375	April 01, 1996	10.26	29.25
99002164	BANK OF NOVA SCOTIA	4,649,650.51	9.750	March 01, 1996	10.46	34.92
99002172	FIDUCIE DESJARDINS INC.	7,782,630.00	9.625	April 01, 1996	10.23	35.00
99002180	VANCOUVER CITY SAVINGS C.U.	5,930,278.74	9.250	April 01, 1992	10.05	27.00
99002206	CENTRAL GUARANTY TRUST CO.	5,097,583.42	9.625	April 01, 1996	10.16	30.00
99002230	FIRSTLINE TRUST COMPANY	12,158,831.71	10.125	March 01, 1996	10.62	34.92
99002271	ROYAL BANK OF CANADA	14,741,884.33	9.500	April 01, 1996	10.09	28.17
99002289	FIRSTLINE TRUST COMPANY	2,883,090.75	9.750	March 01, 1996	10.88	23.33
99002321	FIRSTLINE TRUST COMPANY	2,482,739.59	9.750	April 01, 1996	10.74	29.42
MONTH OF ISSUE: MAY 1991						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96403514	FIRSTLINE TRUST COMPANY	4,002,872.12	9.250	May 01, 1994	10.03	24.83
96403548	FIRSTLINE TRUST COMPANY	10,000,352.34	9.875	April 01, 1996	11.22	19.08
96403555	ROYAL TRUST COMPANY	25,000,030.65	9.875	March 01, 1996	11.77	23.50
96403563	SHOPPERS MORTGAGE AND LOAN CORP.	2,475,283.94	9.000	April 01, 1994	10.79	24.92
96403571	FIRSTLINE TRUST COMPANY	2,875,322.58	10.250	February 01, 2001	12.68	24.67
96403589	BANQUE NATIONALE DU CANADA	5,749,542.67	9.750	March 01, 1996	11.64	22.08
96403597	BANQUE NATIONALE DU CANADA	6,351,977.62	9.750	March 01, 1996	12.51	22.92
96403605	SHOPPERS MORTGAGE AND LOAN CORP.	13,159,649.95	9.625	May 01, 1996	10.96	24.75
96403613	SHOPPERS MORTGAGE AND LOAN CORP.	2,394,775.98	9.000	April 01, 1996	10.05	24.75
96403621	FIRSTLINE TRUST COMPANY	2,500,487.70	9.375	May 01, 1996	11.15	24.42
96403639	FIRSTLINE TRUST COMPANY	10,000,528.67	10.125	May 01, 1996	11.23	24.00
96403647	FIRSTLINE TRUST COMPANY	10,000,710.79	10.000	May 01, 1996	11.21	24.00
96403670	FIRSTLINE TRUST COMPANY	2,934,550.56	9.500	May 01, 1993	11.29	24.67
96403688	FIRSTLINE TRUST COMPANY	2,903,297.99	10.250	May 01, 2001	11.62	24.83
96403696	FIRSTLINE TRUST COMPANY	3,295,136.48	9.625	May 01, 1994	11.26	24.67
SOCIAL HOUSING POOLS						
99001760	MARITIME LIFE ASSURANCE CO.	5,527,628.50	9.500	May 01, 1996	10.75	27.33
99002198	TORONTO-DOMINION BANK	2,297,321.07	9.500	May 01, 1996	10.15	30.00
99002214	BANK OF NOVA SCOTIA	6,821,014.87	9.500	May 01, 1996	10.27	29.33
99002222	TORONTO-DOMINION BANK	12,012,894.62	9.500	May 01, 1996	10.19	25.67
99002248	TORONTO-DOMINION BANK	2,324,897.35	10.125	May 01, 2001	10.70	30.00
99002255	CIBC MORTGAGE CORPORATION	18,125,906.92	9.625	May 01, 1996	10.46	26.50
99002263	BANK OF NOVA SCOTIA	4,943,387.76	9.500	April 01, 1996	10.37	34.92
99002297	VANCOUVER CITY SAVINGS C.U.	4,064,827.91	9.875	May 01, 1996	10.46	27.00
99002370	FIRSTLINE TRUST COMPANY	9,101,359.26	9.625	April 01, 1996	10.57	34.92
99002412	ROYAL BANK OF CANADA	4,347,762.29	9.625	May 01, 1996	10.16	28.50
99002420	FIRSTLINE TRUST COMPANY	7,762,700.00	9.750	May 01, 1996	10.47	35.00
MONTH OF ISSUE: JUNE 1991						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96403654	ROYAL TRUST COMPANY	25,000,023.36	9.875	June 01, 1996	11.34	23.70
96403662	CENTRAL GUARANTY TRUST CO.	4,395,434.17	9.750	June 01, 1996	12.66	23.50
96403704	SHOPPERS MORTGAGE AND LOAN CORP.	18,050,762.17	9.625	June 01, 1996	11.03	24.75
96403712	FIRSTLINE TRUST COMPANY	14,000,132.94	10.000	June 01, 1996	11.13	19.17
96403746	FIRSTLINE TRUST COMPANY	40,000,452.97	9.875	June 01, 1996	11.16	24.92
96403753	FIRSTLINE TRUST COMPANY	7,001,005.16	10.000	July 01, 1996	11.14	25.00
96403720	BANQUE NATIONALE DU CANADA	27,476,362.52	9.875	May 01, 1996	11.40	22.41
SOCIAL HOUSING POOLS						
99002305	NATIONAL TRUST COMPANY	24,126,072.28	9.500	June 01, 1996	10.77	29.75
99002313	CIBC MORTGAGE CORPORATION	5,152,048.05	9.500	June 01, 1992	10.08	26.08
99002339	BANK OF NOVA SCOTIA	13,578,969.89	9.500	June 01, 1996	10.23	26.42
99002347	CIBC MORTGAGE CORPORATION	2,862,974.23	9.875	June 01, 2001	10.46	24.00
99002404	BANK OF NOVA SCOTIA	10,747,400.17	9.625	May 01, 1996	10.29	34.92
99002438	PEOPLES TRUST COMPANY	4,724,812.40	11.000	June 01, 1996	11.98	20.17
99002446	PEOPLES TRUST COMPANY	3,435,639.60	11.000	June 01, 1996	12.45	28.17
99002479	VANCOUVER CITY SAVINGS C.U.	6,409,212.60	9.750	June 01, 1996	10.31	30.00
99002354	TORONTO-DOMINION BANK	17,038,350.49	9.625	June 01, 1996	10.23	26.42
99002362	FIDUCIE DESJARDINS INC.	3,345,957.00	9.375	June 01, 1994	10.05	27.00
99002388	CIBC MORTGAGE CORP.	36,664,869.64	9.500	June 01, 1996	10.33	29.00
99002396	FIDUCIE DESJARDINS INC.	2,019,980.45	9.875	June 01, 1996	11.09	25.92
99002511	ROYAL BANK OF CANADA	7,749,013.58	9.500	June 01, 1996	10.23	25.92
99002594	FIRSTLINE TRUST COMPNY	5,954,422.38	9.875	June 01, 1996	10.48	35.00

CMHC MORTGAGE MARKET

TRENDS

ANNIVERSARY ISSUE

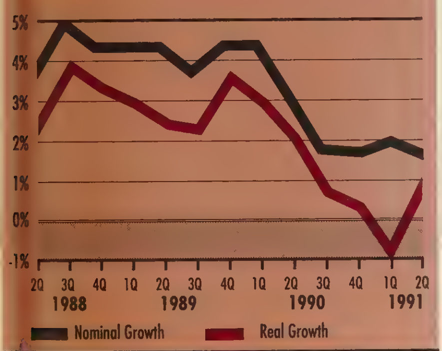
MARKET ANALYSIS CENTRE OCTOBER 1991

MORTGAGE LENDING

GROWTH IN MORTGAGE CREDIT WEAKENED DURING THE SECOND QUARTER

Growth in residential mortgage portfolios of the major institutional lenders remained sluggish throughout the second quarter of 1991. Improving housing activity suggests stronger mortgage credit growth for the rest of the year. However, the growth of mortgage loans outstanding will be limited in comparison to the pace observed during the 1987-1990 period.

Residential Mortgage Credit Growth Nominal and Real *(from previous quarter)*



Source: Bank of Canada CMHC – MAC 1991

Market Share of Residential Mortgage Credit

	2Q90	1Q91	2Q91
Banks	52.6%	53.9%	54.3%
Trust	38.7%	37.3%	36.8%
Life	8.1%	8.2%	8.3%
Sales & Loan	0.5%	0.6%	0.6%

Source: Bank of Canada CMHC – MAC 1991

The value of outstanding mortgage credit grew by only 1.6 per cent in the second quarter of 1991 compared with 1.9 per cent during the preceding quarter. After adjusting for inflation, mortgage credit outstanding rebounded 0.9 per cent during the second quarter after the exceptional drop of 0.9 per cent during the first three months. At that time, the introduction of the GST boosted prices and thus, lowered the level of real mortgage credit in comparison with the fourth quarter of 1990 and the second quarter of 1991 figures.

At first glance, the weakness of the growth rate of mortgage credit is surprising since housing activity continued to improve during the second quarter. New loans approved surged to record levels both in terms of units and value. This mainly reflects the higher volume of housing starts and resales of existing homes since price increases were moderate during the same period. Dwelling starts jumped to 152,000 in the second quarter, up from 96,000 units in the first. For the same period, MLS[1] sales for existing houses grew by 38.5 per cent in value resulting from the combined effects of a surge of 35.6 per cent in the number of units sold and a marginal increase of 2.1 per cent in prices. New house prices were even weaker, declining by 0.5 per cent during the same period. However, it is not unusual for trends in mortgage credit to lag about a quarter behind changes in housing activity. This can be explained by the fact that mortgage loans are approved, most of the time, a few months before the occupancy and the payment of the house by home buyers. Furthermore, this delay could be longer in the first stage of the recovery as interest rates decline. Homebuyers could delay the purchase of a home even though they have an approved loan if they expect further drops in interest rates. Lower rates offered on saving accounts could also increase prepayments and thus reduce mortgage credit growth other things being equal.

The higher level of activity of the housing sector thus suggests a rebound of mortgage credit growth in the near future although this could be potentially limited for the reasons mentioned above. Other factors could also slow mortgage credit growth for the next several quarters. First, the economic recovery is expected to be subdued compared to other post-war recoveries. Second, consumer debt level, although manageable, is very high and could play a significant role in a context of high unemployment and low consumer confidence.

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

1991-1992 HOUSING OUTLOOK *

HOUSING MARKETS RECOVER

Lower mortgage rates restarted both the existing and new housing markets during the last few months. Housing markets in Canada had tumbled in the beginning of 1991 under the weight of recessionary economic conditions, an oversupply of housing in some areas, and the introduction of the GST. First quarter starts were the lowest quarterly figures since 1957.

The market for existing homes began to respond to lower mortgage rates during the first quarter. Increases in sales of existing units were particularly significant in British Columbia, Quebec, and Ontario. Housing starts began to rebound in April. Most of the increases in starts in the second and third quarters were concentrated in Quebec, Ontario and British Columbia. Gains in Ontario and in British Columbia were mainly due to first-time buyers responding to more affordable houses as a result of lower prices and interest rates. Part of the gains in Quebec resulted from provincial government programs for first-time buyers and for construction of housing for homeownership.

OUTLOOK

Housing Starts

Housing starts are expected to reach 147,000 units for 1991. The recovery will continue at a gradual pace in 1992 with starts attaining 178,000 units. Continued low mortgage interest rates will be the main factor contributing to the recovery in housing as well as in the rest of the economy. One and five year mortgage rates are expected to go slightly below their current respective levels of 9.50 per cent and 10.75 per cent for the rest of the year.

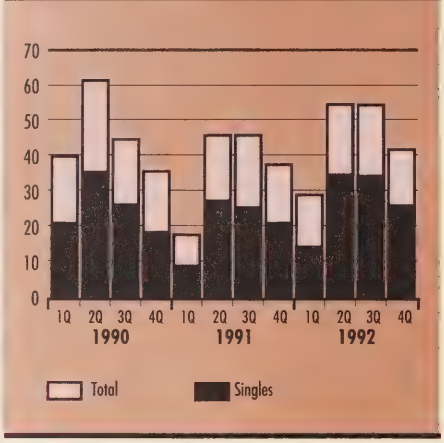
The recovery in the housing sector will be moderate, in line with the general economic recovery. High levels of consumer debt combined with low discretionary savings and a high unemployment rate in 1991 and 1992 are among factors dampening the improvement of starts and the ability of potential homebuyers to purchase a home.

Furthermore, high inventories of new houses in certain markets, although declining, will also limit the number of new units to be built.

Improved affordability of single-detached units and the trend to homeownership due to the aging of the population along with high inventories in condominiums and rental units will mean a stronger recovery for single units than for multiples. First-time buyers are currently dominating the market and will continue to do so throughout the rest of this year and probably much of 1992, as well. However, as the market gains strength, more and more move-up buyers will enter the market.

All provinces will see some improvement in starts in the latter half of 1991, although the recovery will not be significant for Manitoba and Saskatchewan. Starts will continue to improve in all provinces in 1992 with the largest improvement in Ontario.

Housing Starts – Thousands of Units



Source: CMHC CMHC – MAC 1991

Resales and Prices of Existing Houses

As with housing starts, greater affordability has caused sales of existing units to rebound in 1991. Lower interest rates and stable or lower house prices, especially in markets such as Toronto and Vancouver, will create strong demand for these units. Total MLS sales are projected to grow by 25 per cent in 1991 but sales will grow only by 2 per cent in 1992 because of the sharp rebound in 1991. With the exception of Newfoundland, Alberta and British Columbia, price increases for existing houses are expected to average less than 5.5 per cent for 1991 and 1992. With inflation forecast at 5.9 per cent in 1991 and 3.8 per cent in 1992, real house prices(prices adjusted for inflation) will decline or remain fairly stable. Weak demand, excess supply, and price conscious consumers will limit price increases in most provinces.

Rental Market

The rental market, which has eased in most cities over the past year due to the oversupply of new units and increased home buying by renters, is expected to tighten again over the coming months. Lower rental unit starts and the increase in demand will reduce the oversupply in some markets. Despite these improvements, vacancy rates in Quebec, Nova Scotia, Manitoba and Saskatchewan will remain above their normal levels. However, most of Ontario and British Columbia rental markets will be relatively tight.

** This is an abbreviated version of the publication the* National Housing Outlook *prepared in July by the Market Analysis Centre. See the publication for further details on the forecast.*

NHA AND CONVENTIONAL MORTGAGE TRENDS

Mortgage Lending Contracted in 1990

'ollowing five straight years of growth, he total value of mortgage loan appro- als declined to $54.6 billion in 1990, an .8 per cent drop from the 1989 level Table 1). Both the NHA and conven-

Table 1 Growth Rates of Mortgage Loan Approvals

	NHA	Conventional	TOTAL
$ Volume			
990	(13.2%)	(7.7%)	(8.8%)
989	13.4%	9.5%	10.2%
# Loans			
990	(15.7%)	(4.6%)	(6.8%)
989	6.3%	3.3%	3.9%

ource: CMHC CMHC–MAC 1991

Table 2 Average Size of Loans Approved

	NHA	Conventional	TOTAL
990	$ 95,098	$ 93,447	$ 93,744
989	$ 92,396	$ 96,570	$ 95,741

ource: CMHC CMHC–MAC 1991

ional segments of the market were affected with respective contractions of 13.2 per cent and 7.7 per cent.

This decline in total lending value re- sulted from a reduction of 6.8 per cent n the number of approvals to a total of 582,301 loans. Reductions were 15.7 per cent for NHA loans and 4.6 per cent for conventional loans. Trends in total mortgage lending in 1990 reflected sluggish housing markets due to the gradual weakening of the economy, low consumer confidence and high interest rates. The combined impact of these factors was a decline of 16 per cent in housing starts and a drop of 23 per cent in residential sales processed through the Multiple Listing Service (MLS). House prices moved within a narrow range in 1990: the price index of new houses inched up by 1 per cent while the average value of MLS resi- dential sales was down 4 per cent. In line with these trends in house prices, the average value of loan approvals declined only marginally (Table 2). The average size of loans decreased from $95,741 in 1989 to $93,744 in 1990. While the average value of conven- tional loans decreased from $96,570 to $93,447, the average value of loans financed under the NHA increased from $92,396 in 1989 to $95,098 in 1990.

Market Share of NHA Loans Dropped in 1990 ...

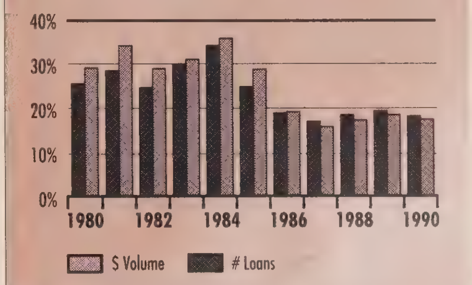
Since NHA mortgage loan approvals registered a larger drop in value than conventional loans in 1990, the NHA share of the mortgage business edged down marginally from 19 per cent of the total in 1989 to 18 per cent in 1990. Given the roughly equal value of aver- age loan approvals, the number of NHA loans also made up 18 per cent of the total.

The share of NHA loans in total mort- gage financing has remained fairly stable at slightly less than 20 per cent of the total during the second half of the eighties (Table 3). This is, however, sub- stantially lower than the level observed during the first half of the decade when NHA financing amounted to 31 per cent of the total. The relative decline has occurred in both the number of loans approved and the dollar volume of those loans (Chart 1).

One reason for the higher share of NHA approvals in the early 1980s was the existence of special programs de- signed to make home ownership easier and to stimulate the construction of rental units.

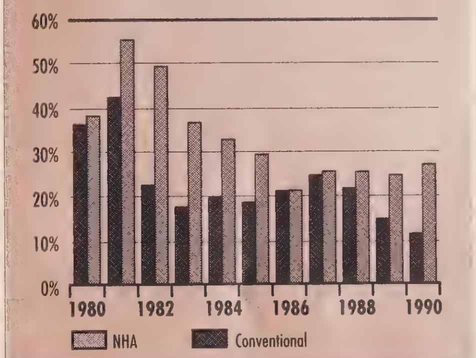
The main reason for the lower share of NHA mortgages in the second half of the 1980s, however, is the growing importance of move-up buyers on the market. Since 1986, they have accoun- ted for more than half of home buyers in any given year. Households in this group have generally accumulated substantial equity in their current house. When they move to a second house, they generally have substantial

Chart 1 Market Share of NHA – %



Source: CMHC CMHC–MAC 1991

Chart 2 Share of New Units NHA & Conventional Loans Approved for New Units - *% respective total dollar volumes*



Source: CMHC CMHC–MAC 1991

Table 3 Share of NHA & Conventional in Total Mortgage

	#Loans		$Volume	
	NHA	Conventional	NHA	Conventional
1980-90	24%	76%	24%	76%
1980-85	29%	71%	31%	69%
1986-90	19%	81%	18%	82%
1989	20%	80%	19%	81%
1990	18%	82%	18%	82%

Source: CMHC CMHC–MAC 1991

continued from page 3

downpayments and their loans don't have to be insured. This growing importance of the move-up buyers is of course related to the aging of the baby boom generation.

A related trend is the relative shares of mortgage lending for new and existing dwellings. Since the mid 1980s, the share of lending related to new housing units has declined. That share averaged 31 per cent of the total in the early 1980s and has declined to 21 per cent since 1986 (Chart 2). New housing financing takes a larger proportion of NHA loans than of conventional loans. This importance of new housing for NHA loans comes mainly from new multiple housing where NHA loans accounted for more than 41 per cent of total lending in 1990.

... But it Bounced Back in the First Half of 1991

The recovery in housing markets witnessed in early 1991 has been fueled by lower interest rates and lower prices, both of which have helped to make housing more affordable.

First-time buyers, who had often been shut out from the market over the last several years by high prices and, more recently, by high mortgage interest rates, have been able to re-enter the market in force during the first half of 1991 and to satisfy some of their pent-up demand for housing. Those buyers will continue to have a significant presence on the market since housing is likely to remain fairly affordable for some more time. This larger role of first time buyers has created more demand for NHA insurance, and the relative share of NHA loans in the mortgage lending market has increased. NHA loans made up 24 per cent of the total value of loan approvals during the first half of 1991, up from 18 per cent in 1990. NHA share of the total number of loans, at 22 per cent, is also up.

INDICATORS OF MORTGAGE LENDING ACTIVITY

NHA and Conventional Loans Approved (thousands of dollars)

	Banks		Life		Trust		Loan Companies		Other		TOTAL	
	Units	$000	Units	$000	Units	$000	Units	$000	Units	$000	Units	$000
1989	400,393	31,670,920	91, 975	4,276,572	216,101	16,775,248	73,112	6,205,826	13,636	894,430	795,217	59,822,996
1990	373,267	29,227,383	69,257	3,348,579	220,380	16,165,468	58,151	5,005,475	13,038	840,317	734,093	54,587,222
1991	228,507	18,243,571	52,656	2,695,526	94,828	6,413,916	45,236	3,411,552	11,535	791,733	432,762	31,556,298

NOTE: 1991 figures represent the first two quarters only.

Sales and purchases of insured NHA mortgages (millions of dollars) [1]

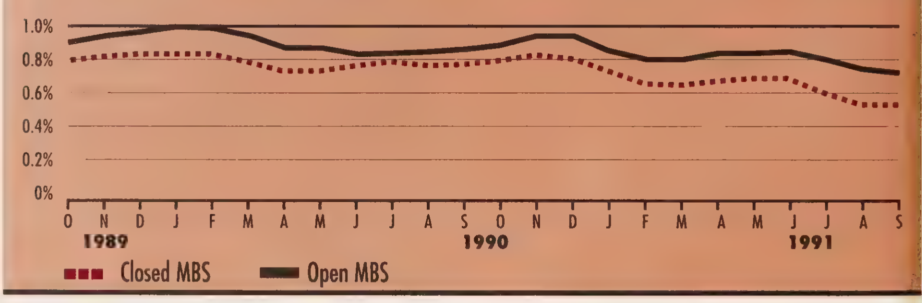
	Chartered Banks	Life Insurance	Trust Companies	Loan & Other Companies	Pension Funds	Corp.	Unicorp.	TOTAL
Sales - private secondary market								
1989	772.5	74.7	82.9	14.6	–	52.7	–	997.4
1990	747.2	31.7	7.2	6.8	–	28.7	–	821.6
1990 2Q	129.1	–	–	6.8	–	11.4	–	147.3
1990 3Q	200.1	–	0.7	–	–	2.0	–	202.8
1990 4Q	237.4	–	6.4	–	–	6.7	–	250.5
1991 1Q	178.2	23.2	4.8	–	–	19.7	–	225.9
1991 2Q	194.3	–	34.9	–	–	10.4	–	239.6
Purchases - private secondary market								
1989	55.7	49.2	93.7	689.8	36.3	57.3	15.4	997.4
1990	62.6	36.4	75.3	628.5	0.4	1.1	17.3	821.6
1990 2Q	38.9	–	11.0	97.0	–	–	0.4	147.3
1990 3Q	1.6	3.3	–	195.7	0.1	–	2.1	202.8
1990 4Q	19.1	1.4	64.2	158.4	0.1	0.7	6.6	250.5
1991 1Q	23.4	2.3	20.9	157.2	0.2	18.7	3.2	225.9
1991 2Q	14.1	1.7	45.7	155.5	0.5	11.2	10.9	239.6

1. Data for initial sales and purchases only. Subsequent sales and purchases are excluded.
Lending institutions are included under the appropriate category whether or not they are Approved Lenders under the National Housing Act.

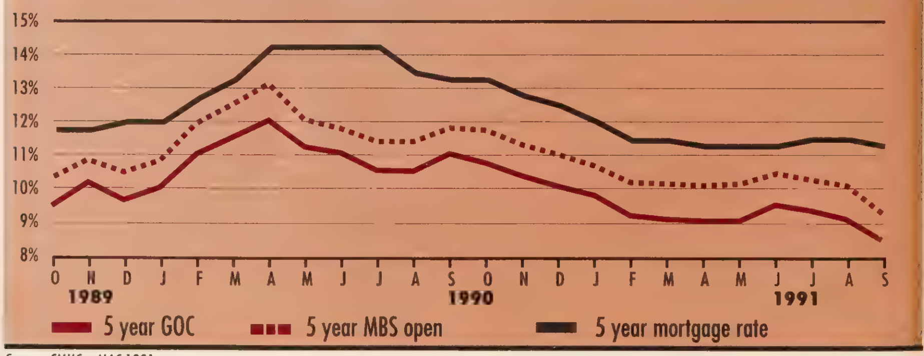
Mortgage-Backed Securities (millions $)

1988	$ millions	1989	$ millions	1990	$ millions	1991	$ millions
1Q	110.3	1Q	335.5	1Q	557.3	1Q	505.4
2Q	107.6	2Q	389.1	2Q	582.2	2Q	644.3
3Q	254.2	3Q	630.1	3Q	365.5	3Q	701.7
4Q	301.1	4Q	585.2	4Q	597.6		

Mortgage-Backed Securities historical spread analysis (MBS over GOC, 5 year maturity)



Historical interest rate analysis



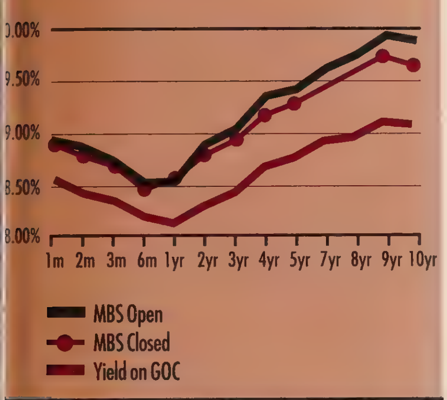
Source: CMHC – MAC 1991

NHA MORTGAGE-BACKED SECURITIES

NEW MILESTONES FOR NHA MBS MARKET DURING THE THIRD QUARTER OF 1991

Issues of NHA Mortgage-Backed Securities rose to a new record of $701.7 million during the third quarter, up from $644.3 million for the second quarter. A total of 55 pools were issued, down from 66 in the previous quarter.

NHA Mortgage-Backed Securities Yield Analysis – *September 30, 1991**



* Bid Side
Source: Burns Fry Limited CMHC – MAC 1991

NHA Mortgage-Backed Securities Yield Analysis – *Market at 3:10 p.m. October 7, 1991**

GOC description				
Coupon Rate	Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
8.75%	09/93	Open	50	8.49%
9.25%	10/94	Open	57	8.76%
10.75%	12/95	Open	64	9.31%
10.75%	12/95	Closed	44	9.11%
9.25%	10/96	Open	67	9.20%
9.25%	10/96	Closed	47	9.00%
9.75%	12/01	Open	79	9.76%

* Bid Side
Source: Telerate; average for MBS traders CMHC – MAC 1991

The mortgage-backed securities market reached three notable points during the third quarter of 1991: the value of issues rose to a new high; two pools matured, the first such instance since the instrument was created (see the related article in this issue); and the value of issues since the inception of the program topped the $7-billion mark, reaching $7,123.3 million at the end of the quarter with a cumulative total of 680 issues.

Lenders issued 55 pools of MBS with a total value of $701.7 million during the quarter. While the value is up from the previous record of $644.3 million issued during the second quarter, the number of pools was smaller than the record of 66 issues in the second quarter. August was especially active with total issues of $364.0 million, an all-time monthly high. The MBS market for social housing was strong, with 21 pools issued for a total value of $196.7 million.

The strong MBS performance during the last three months was due to several favorable factors. Both the new construction and the resale segments of housing continued to recover, albeit at a slower pace. Lower interest rates made five-year mortgage terms more attractive and stimulated the demand for that maturity from borrowers. A rising spread between government of Canada securities and mortgage rates for five-year terms increased the value of MBS financing for lenders: on average, five-year mortgage rates were 215 basis points above GOCs of the same maturity, up from 176 points in the second quarter. The differential also increased through the quarter, reaching almost 250 points at the end of September.

One-year mortgage rates, which had averaged 10.25 per cent in the second quarter, held steady at 10 per cent until early September when they were marked down by 25 basis points to 9.75 per cent. At the end of September, the one-year term was further lowered another 25 basis points by some lenders.

This easing of one-year mortgage rates followed the pattern of rates on money markets. While mortgage lending grows vigorously, the demand for general loans by persons and businesses is growing only marginally. That results from an economic recovery that still shows a slow pace and a narrow base.

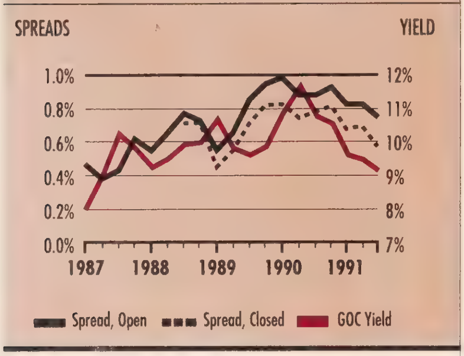
Longer-term mortgage rates followed yields on the bond market. Five-year mortgage rates, which had averaged 11.25 per cent in the second quarter rose 25 basis points to 11.50 per cent in July. That rise was also partly due to the growing attractiveness of longer terms with mortgage borrowers. Rates returned to their earlier level in mid-September and were even lowered to 11 per cent at the end of the month by some institutions. The decline was driven by a drop in longer term yields on bond markets on further evidence of slow growth prospects and lower inflation trends.

Yield differentials on NHA MBS and five-year GOCs narrowed somewhat in the third quarter. On MBS with non-prepayable options (Closed MBS), the spread was lowered from 70 basis points during the second quarter to about 57 basis points in the third quarter. A growing market for outstanding MBS means more liquidity and lower premiums compared to GOCs. For MBS with the pre-payable option(the Open MBS), yields have also eased but not as much, from 84 basis points in the second quarter to about 77 points in the third quarter. The prospect of lower interest rates has increased the risk related to the prepayable option. As a result, markets require a growing spread between the open and the closed types of MBS.

MATURE NHA MORTGAGE-BACKED SECURITIES POOLS

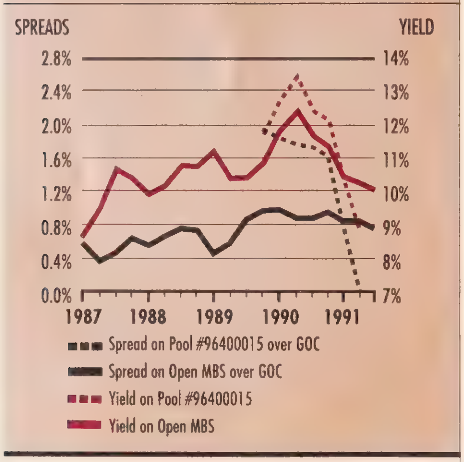
For the first time since the start of the NHA Mortgage-Backed Securities (MBS) program in 1987, two pools reached maturity in August. This "première" provides data for an evaluation of the actual performance of the pools against alternative financial instruments. It also adds to the information base needed for further research on MBS.

Graph 1 Spreads of Open and Closed MBS vs. GOC in % *(5-year maturity)*



Source: Burns Fry Ltd. CMHC – MAC 1991

Graph 2 Yield and Spread Pool #96400015 vs. all Open MBS in % *(5-year maturity)*



Source: Burns Fry Ltd. CMHC – MAC 1991

Profile of NHA MBS

Pool #96400015 issued by the Canadian Imperial Bank of Commerce, a 5-year maturity MBS with prepayable option, was the first issue under the NHA MBS program in January 1987. The pool, composed of residential mortgages for single homes, was worth $20.33 million with a 9.25 per cent coupon rate (Table 1). The weighted average mortgage rate (WAM), which is the average mortgage rate weighted by the size of each mortgage in the pool, was 10.75 per cent at issue date with a weighted average remaining amortization (RAM) of almost 25 years (293.20 months). The WAM and the RAM are different at issue date and at maturation date of the MBS because of partial payments and liquidations of the principal that occurred over the years for some of the mortgages in the pool. The experience of this pool is reviewed below.

Eight-month maturity social housing Pool #99001877, issued with non-prepayable option was of a smaller size totalling $10.07 million with a RAM of 310.32 months and a 10.375 per cent coupon rate. The initial and the final WAM are the same since the pool included only one project and had no provision for partial or total liquidation. The RAM for social housing pools is usually longer than for residential pools as social housing projects involve multiple units, which in turn feature longer amortization periods than mortgages for single units. Further analysis for Pool #99001877 is not possible for now due to the lack of good data for pools with less than 1-year maturity.

Graph 1 shows that yields on MBS have always been higher than rates on Government of Canada Bonds (GOCs) even though MBS carry the same guaranty as GOCs. This can be explained by the MBS product structure where part of the principal is paid back to the investors on a monthly basis.

Spreads on yields between MBS and GOCs have also changed along with interest rates fluctuations. During 1989 and the first half of 1990, spreads between MBS and GOCs for the same maturity widened, reflecting a higher liquidity premium, as rising interest rates dampened the demand for new mortgages and MBS issues. Since then, the spread has narrowed as lower interest rates and the resulting higher volume of new mortgages and the greater number of issues of MBS increased the liquidity of MBS compared with GOCs.

Table 1 Pools

	Pool #96400015	Pool #99001877
Issuer	CIBC	Firstline Trust Co.
Issue Date	Jan. 1/87	Dec. 1/90
Maturity Date	Aug. 1/91	Aug. 1/91
Pool Size	$20,330,636	$10,068,033
Coupon Rate	9.250%	10.375%
WAM *Initial*	10.750%	11.000%
Final	10.760%	11.000%
RAM *Initial*	293.20 months	310.32 months
Final	226.08 months	300.96 months

Source: Burns Fry Ltd.; CMHC CMHC – MAC 1991

There is also a well established relationship for yields on the two types of MBS. Yields on MBS with prepayable option (open MBS) have always been higher than those on MBS with no-prepayment option (closed MBS); investors need to be compensated with an additional premium because of the cash flow uncertainty arising from partial payments or liquidations on mortgages.

’ool #96400015

)ata available up to now show that the ’ield of open MBS Pool #96400015 ollowed a pattern similar to the yield for .ll open MBS pools although there was a ;reater variability (Graph 2). This yield ›ehaviour can be explained by the mpact of partial or total liquidation of nortgages called unscheduled principal ›ayments (UPP). For technical consid-·rations, see the article on "par compres-·ion" published in the July 1990 of ⁄lortgage Market Trends. The UPP will ›f course be different from one pool to ınother.

Table 2 NHA MBS Cash Flow ($)

	Pool #96400015	Pool #99001877
?eriod	1/87 - 7/91	12/90 - 8/91
Regular Interest	6,170,706	618,840
Penalty Interest	9,564	–
Scheduled Principal	801,517	40,477
Unscheduled Principal		
Prepayment	*448,849*	–
Liquidation	*8,883,798*	*2***
*Remaining Balance**	*10,196,472*	*10,027,554*
TOTAL	**26,510,906**	**10,686,873**

Investors get most of the principal during the last two months of the MBS life.
** Due to technical adjustments*

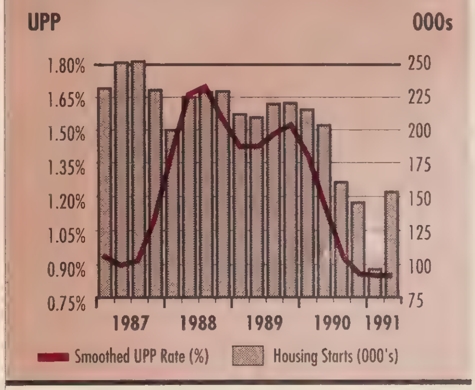
ource: CMHC CMHC – MAC 1991

The UPP Rate of Pool #96400015, which simply measures the UPP as a ɔroportion of principal outstanding at :he beginning of a month, grew sharply ınd remained high in 1988 (Graph 3). At that time, the UPP rate was more :han 2.5 per cent for several months ɔecause mortgages in the pool were prepaid or liquidated. An analysis of cash flow received by investors (Table 2) reveals that liquidations accounted for most of the UPP during the life of the MBS and that partial payments on the principal were relatively small. Good economic growth led to high levels of mortgage liquidations on that pool in 1988 (Graph 3) as a result of higher homeownership turnover (changing housing requirements because of move up patterns, family growth, job relocations, etc.) which helped to boost housing starts. Housing starts and the UPP are thus positively correlated in that case since most of the UPP has been mainly through liquidations.

Since May 1990, the sharp decline in yield on Pool #96400015 resulted from the general decline in interest rates. A lower premium because of lower cash flow uncertainty has also contributed to the drop of the yield since liquidation of mortgages in the pool have fallen in line with housing starts. The UPP rate has been less than 1 per cent in 1991 compared with a peak of more than 2.5 per cent during the third quarter of 1988. This compares with the low UPP rate observed during the first months of existence of the pool as individuals who had just contracted a new mortgage were not expected to move soon.

UPP is thus an important factor in determining the yield and, therefore, the price of open MBS. But the total rate of return of an MBS investment will also depend on the yield available for re-investment on unscheduled principal and the associated penalty interest payment (PIP) received by investors. It seems that the rate of return of Pool #96400015 has been enhanced significantly by the re-investment of UPP and PIP received by investors since interest rates rose during most of the life of the pool before it reached maturity (1/87-8/91). This topic, along with the determinants of UPP, will be covered in coming issues of Mortgage Market Trends.

Graph 3 Unscheduled Principal Payment and Housing Starts



Source: CMHC CMHC – MAC 1991

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Marc Pellerin, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 756-0777.

Mortgage Market Trends is a quarterly publication. Enquiries regarding subscription should be directed to: The Manager, Marketing & Communications, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2286 or FAX: (613) 748-2402.

Cette publication est aussi disponible en français sous le titre SCHL - Tendances du marché hypothécaire – LNH 6109 4T/91.

NHA Mortgage-Backed Securities Third Quarter Issues – July 1991 to September 1991

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs
MONTH OF ISSUE: JULY 1991						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96403738	ROYAL TRUST COMPANY	45,000,005.00	10.125	June 01, 1996	11.17	23.58
96403761	SHOPPERS TRUST COMPANY	2,121,833.96	9.250	June 01, 1994	11.01	24.25
96403779	FIRSTLINE TRUST COMPANY	10,002,866.03	10.250	July 01, 1996	11.13	24.75
96403795	VANCOUVER CITY SAVINGS C.U.	14,511,964.55	9.500	July 01, 1992	10.42	24.33
96403803	FIRSTLINE TRUST COMPANY	14,001,966.87	10.250	June 01, 1996	11.14	19.00
96403811	FIRSTLINE TRUST COMPANY	18,000,645.86	10.250	July 01, 1996	11.17	24.75
96403829	FIRSTLINE TRUST COMPANY	2,502,656.82	11.000	December 01, 2003	11.83	24.83
96403852	FIRSTLINE TRUST COMPANY	3,311,629.27	10.750	July 01, 2001	11.53	24.92
96403860	FIRSTLINE TRUST COMPANY	2,674,403.62	10.000	July 01, 1994	11.11	24.75
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500038	FIRSTLINE TRUST COMPANY	8,001,382.54	10.250	June 01, 1996	11.09	24.58
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600051	CENTRAL GUARANTY TRUST CO.	11,922,447.11	9.750	July 01, 1996	10.66	25.67
SOCIAL HOUSING POOLS						
99002453	METROPOLITAN TRUST COMPANY	27,079,010.55	9.625	July 01, 1996	10.24	26.75
99002461	TORONTO-DOMINION BANK	6,484,427.40	9.625	July 01, 1996	10.19	25.00
99002487	BANK OF NOVA SCOTIA	5,226,501.72	9.625	July 01, 1996	10.26	28.67
99002495	BANK OF NOVA SCOTIA	2,083,468.20	9.500	July 01, 1994	10.24	25.00
99002503	METROPOLITAN TRUST COMPANY	2,429,216.93	9.625	July 01, 1996	10.27	25.58
99002529	CIBC MORTGAGE CORPORATION	11,011,640.94	9.375	July 01, 1996	10.27	29.08
99002537	BANK OF NOVA SCOTIA	5,687,526.13	9.500	June 01, 1996	10.28	34.92
99002586	MARITIME LIFE ASSURANCE CO.	2,266,526.11	9.625	July 01, 1996	10.62	21.67
99002610	ROYAL BANK OF CANADA	6,511,756.83	9.500	July 01, 1996	10.19	27.42
MONTH OF ISSUE: AUGUST 1991						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96403787	BANQUE NATIONALE DU CANADA	38,189,919.28	10.125	June 01, 1996	11.26	22.58
96403837	FORTIS TRUST CORPORATION	2,339,957.91	10.125	August 01, 1996	11.45	23.92
96403845	CENTRAL GUARANTY TRUST CO.	5,715,215.49	10.125	June 01, 1996	11.46	23.75
96403878	ROYAL TRUST COMPANY	60,000,057.78	10.250	July 01, 1996	11.15	23.25
96403886	SHOPPERS TRUST COMPANY	63,030,630.85	9.625	August 01, 1996	10.95	24.58
96403894	VANCOUVER CITY SAVINGS C.U.	9,977,212.72	10.500	August 01, 1996	11.29	24.25
96403902	FIRSTLINE TRUST COMPANY	11,120,664.00	10.250	August 01, 1996	11.18	19.08
96403910	FIRSTLINE TRUST COMPANY	2,466,138.24	9.875	August 01, 1994	11.13	24.00
96403928	FIRSTLINE TRUST COMPANY	2,400,117.96	9.125	August 01, 1994	9.89	24.83
96403944	CIBC MORTGAGE CORPORATION	24,352,199.19	10.250	June 01, 1996	11.37	23.75
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500046	FIRSTLINE TRUST COMPANY	35,000,696.96	10.375	August 01, 1996	11.18	24.67
SOCIAL HOUSING POOLS						
99002545	METROPOLITAN TRUST COMPANY	24,686,560.52	9.875	August 01, 1996	10.49	27.33
99002552	TORONTO-DOMINION BANK	16,628,669.09	9.875	August 01, 1996	10.46	30.00
99002560	BANK OF NOVA SCOTIA	4,173,623.23	9.625	August 01, 1996	10.50	29.42
99002578	MARITIME LIFE ASSURANCE CO.	3,493,047.70	9.000	August 01, 1996	10.62	29.92
99002602	CIBC MORTGAGE CORPORATION	31,914,407.56	9.625	August 01, 1996	10.47	28.17
99002628	PEOPLES TRUST COMPANY	3,185,875.04	9.875	July 01, 1996	0.00	17.75
99002636	PEOPLES TRUST COMPANY	5,018,348.94	9.750	June 01, 1996	11.01	28.08
99002701	ROYAL BANK OF CANADA	6,153,607.16	9.625	August 01, 1996	10.47	27.08
99002719	FIRSTLINE TRUST COMPANY	14,141,417.89	10.000	June 01, 1996	10.86	34.83
MONTH OF ISSUE: SEPTEMBER 1991						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96403969	SHOPPERS TRUST COMPANY	3,094,116.40	9.750	August 01, 1996	11.24	24.25
96403977	ROYAL TRUST COMPANY	25,000,028.68	10.000	August 01, 1996	11.19	22.92
96403985	ROYAL TRUST COMPANY	50,000,105.04	10.000	August 01, 1996	11.22	23.33
96403993	SHOPPERS TRUST COMPANY	3,042,779.02	9.375	August 01, 1996	10.15	24.50
96404009	SHOPPERS TRUST COMPANY	3,899,307.75	10.250	August 01, 2001	11.45	24.50
96404033	PEOPLES TRUST COMPANY	2,051,636.44	10.875	April 15, 1996	11.29	24.33
96404041	SHOPPERS TRUST COMPANY	15,005,212.49	9.625	September 01, 1996	11.03	24.75
96404058	FIRSTLINE TRUST COMPANY	5,001,723.06	9.875	September 01, 1996	11.26	17.00
96404066	FIRSTLINE TRUST COMPANY	2,019,819.86	8.625	September 01, 1994	9.56	24.83
96404074	FIRSTLINE TRUST COMPANY	2,698,479.17	9.250	August 01, 1993	11.12	24.83
96404116	FIRSTLINE TRUST COMPANY	2,000,890.15	9.875	September 01, 1996	11.35	24.00
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500053	FIRSTLINE TRUST COMPANY	4,567,158.47	10.375	September 01, 2001	11.59	25.33
SOCIAL HOUSING POOLS						
99002669	TORONTO-DOMINION BANK	7,407,386.96	9.875	September 01, 1996	10.49	28.25
99002677	BANK OF NOVA SCOTIA	3,761,092.41	9.625	September 01, 1996	10.52	27.42
99002727	BANK OF NOVA SCOTIA	7,328,755.93	9.750	August 01, 1996	10.62	34.92

CMHC MORTGAGE MARKET

TRENDS

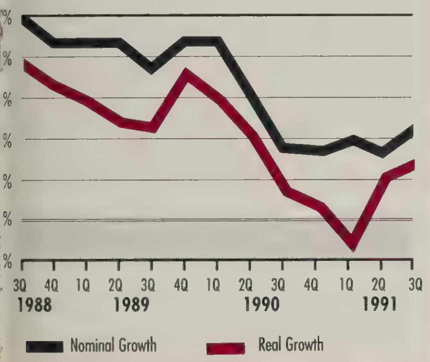
MARKET ANALYSIS CENTRE JANUARY 1992

MORTGAGE LENDING

MORTGAGE CREDIT GROWTH IMPROVED SLIGHTLY DURING THE THIRD QUARTER OF 1991

The growth of residential mortgage credit during the third quarter was the largest since the onset of recession. However, it is still only at about half the rate prevailing in the pre-recession market and prospects are for a few more soft quarters.

Residential Mortgage Credit Growth
Nominal and Real *(from previous quarter)*



Source: Bank of Canada *CMHC – MAC 1992*

Market Share of Residential Mortgage Credit

	3Q90	2Q91	3Q91
Banks	53.2%	54.1%	55.0%
Trust	38.1%	36.8%	35.8%
Life	8.1%	8.6%	8.7%
Sales & Loan	0.6%	0.6%	0.5%

Source: Bank of Canada *CMHC – MAC 1992*

Mortgage credit outstanding at banks and at trust, life insurance and loan companies rose by 2.2 per cent to $199.4 billion during the third quarter of 1991. With the impact of inflation removed, mortgage credit was up 1.5 per cent. This is an improvement over the increase of 1.1 per cent recorded during the second quarter.

This rate of expansion, the largest since the second quarter of 1990, is still only about half the rate prevailing during the pre-recession market. From mid-1985 to mid-1990, mortgage credit rose 4.1 per cent per quarter in nominal terms and 3.0 per cent in real terms.

Performance was mixed on housing markets during the July- September period. The new market improved. Dwelling starts rose to 182,000 units - seasonally adjusted at annual rate - up from 151,000 units during the preceding three months. Also, following five straight quarterly declines, the new house price index recorded a marginal increase of 1.0 per cent.

The resale market, however, after a strong second quarter, fell back dramatically. Average prices for houses sold through the MLS[1] system edged down to around first quarter levels. More importantly, the volume of transactions, following a 33.1 per cent rise in the second quarter, dropped by 44.6 per cent to its lowest level since the start of 1985.

Prospects are for a few more soft quarters. New housing starts in the fourth quarter are marginally down from the third quarter level. Sales through the MLS system stayed low in October and November. Partial mortgage data for the fourth quarter also show a slower pace in the growth of loans outstanding at chartered banks.

Outside the housing sector, the general economic recovery remains anemic and the Conference Board's index of consumer attitudes dipped during the third quarter. This general economic weakness helped bring mortgage rates down further during the fourth quarter, a move that should help housing markets in coming months.

By type of institution, loans outstanding at chartered banks rose by 3.9 per cent during the third quarter, which pushed the share of lending by banks to 55.0 per cent of the total, up from 54.1 per cent during the second quarter.

Mortgage loans at trust companies decreased by 0.5 per cent during the third quarter, a second consecutive quarterly drop. As a result, the share of trust companies in total lending dropped to 35.8 per cent, one percentage point less than for the second quarter. This drop reflects the acquisition of Standard Trust by the Laurentian Bank at the end of June. It is also a continuation of recent trends reflecting structural changes in the financial industry in Canada. In fact, trust companies maintain an active underwriting policy since they are major issuers on the MBS market.

Insurance and loan companies held a steady share of the mortgage portfolio at slightly less than 10 per cent of the total.

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

MORTGAGE MARKET OUTLOOK FOR 1992

Representatives of four of Canada's major lenders provide their views on the outlook for mortgage markets in Canada in 1992. The consensus view is for stronger mortgage lending activity. Lower mortgage rates and house prices will favour both new house construction and the sale of existing homes. The rebound of housing lending wi be modest, however, as the economy recovers gradually.

Rod Pennycook
Vice-President, Residential Mortgages
Royal Bank of Canada

ALTHOUGH the recession may be over from a technical standpoint, Canadians will feel its lingering effects well into 1992. The Canadian economy fell into a pretty deep hole and the process of climbing out will be tough. Falling mortgage interest rates and home prices have stimulated housing activity from its very low levels reached during the recession. Unit sales of existing homes jumped 23.3 per cent during the first nine months of 1991, compared with the same period in 1990. The largest increase in resale activity took place in British Columbia (48.5 per cent) and Ontario (26.9 per cent).

Factors affecting housing markets have turned positive and will likely remain so during the next few years. Mortgage interest rates are likely to fall further, if inflation remains low. House prices have become more affordable in every province, except Saskatchewan and Manitoba. Income flows and general confidence levels are expected to strengthen. Royal Bank expects to see first-time home buyers in the market in the Spring. We anticipate with the improved economy, move-up buyers will dominate the market during the latter part of 1992 and 1993.

Royal Bank expects total housing starts to rise from an estimated 150,800 units in 1991, to 190,000 in 1992 and 200,000 units by 1993.

Douglas A. Campbell
Vice-President, Mortgages
London Life

CANADA'S housing market continues to demonstrate modest improvement relative to 1990. Consumer confidence, however, is still fragile and the mixed signals related to the economic recovery, i.e. higher unemployment resulting from plant closings and corporate layoffs, will likely cause the prospective homebuyer to vacillate over entry or reentry into the marketplace. We do expect this improved picture to continue, but it will only be a very gradual recovery mirroring our anemic economic growth. The new homes market has had a similar experience, and we have now seen activity rebound from a seasonally adjusted low of 92,000 units in January of 1991 to a current base that will likely result in 150,000 starts for the year. It is our opinion that the homebuilder's market will continue to show modest improvement and our early estimates point to 170,000 units in 1992, with the regional performances of British Columbia and Alberta superior to other provinces because of migration and more stable economic activity.

...1992 is seen as a year of modest but continuing growth in most housing sectors.

The ongoing decline in interest rates, to the current 8.5 to 10.0 per cent range, has sparked some renewed interest in the residential marketplace and we anticipate that mortgage interest rates will continue to moderate. This can only help the housing market, by enticing the consumer through much more affordable debt service costs. It will also greatly assist existing borrowers, with lower monthly principal and interest payments, relative to the rate of 13-14 per cent of 1990. So far though, the consumer's preference h been toward improving their cash flows or accelerating their loan amor zation, through this interest-savings, rather than trading up in the marketplace.

Mortgage defaults continue to be a major preoccupation of lenders, because of pressure on residential borrowers due to higher unemployment or the reduction in numbers of hours worked. Lenders continue to monit their portfolio performance very care fully.

In summary, 1992 is seen as a year modest, but continuing growth in m housing sectors.

John Steep
Vice-President, Retail Credit
Canada Trust

MORTGAGE lending in Canada will increase modestly in 1992 a lower interest rates provide for more affordable housing. Move-up buyers will return to the market along with steady stream of first time consumers. Wh there has been a definite shift to longer te selection by mortgag customers, a surprisingly large number have continued to renew or purchase at terms of one year or less.

Move-up buyers will return to the market along with a steady stream of first-time consumers.

As rates continue t fall through the first three - four months o 1992 this trend will no doubt continu but look for a major shift to longer terms, i.e. five years, at the first sign interest rate increases. As longer tern

selection increases, consumers focus on flexibility increases as well. Early renewal policies, prepayment options, conversion costs and fees will be subject to much discussion as consumers will seek to negotiate the best deal they can. This heightened consumer awareness will provide impetus to mortgage lenders to ensure flexible mortgage products are brought to the market as the battle for market share among lenders will accelerate. Lenders will target their marketing to three distinct areas, new home buyers, resale buyers and renewing mortgage customers. In addition to offering new features or product enhancements to customers, Real Estate Companies will find suitors lining up to entice mortgage referrals as house sales pick up in the Spring.

...heightened consumer awareness will provide impetus to mortgage lenders to ensure flexible mortgage products...

With rental vacancies tightening in the markets like Toronto and Vancouver, investors are likely to return throughout the year. As residential income properties increase in popularity in those markets affected, likewise will real estate sales in general.

While lower rates, affordable housing and enthusiastic mortgage lenders will be in evidence, a lower unemployment rate and a strong U.S. economy are essential to recovery.

Yves Morency
Vice-President, Planning
Confédération des caisses Desjardins

FOLLOWING a year of decline in housing starts and in house prices, the building industry in Quebec and Canada started to recover during the Spring of 1991. In fact, supported by successive decreases in mortgage interest rates and by various government programs to encourage residential construction, the number of housing starts surged during the second quarter of the year.

While slight signs of hesitation, or lack of stamina were observed in certain regions, the year 1991 will end up on a rather positive note with over 150,000 housing starts in Canada, 41,000 of which will be in Quebec. Even if this number of new units is lower than that for the last several years, it still amounts to a significant recovery considering the poor results posted in the first quarter of the year.

...favourable credit conditions will also mean... growth in sales of existing houses and a substantial increase in renovation expenses.

Next year, this recovery in residential construction will pick up somewhat without, however, reaching the peaks attained during the last half of the 1980s. Even if the recent drop in interest rates has brought mortgage rates to their lowest level in at least 18 years, the extent of this recovery will be limited by: the slow pace of the economic recovery in Canada, low consumer confidence and the very poor labour market conditions. Thus, there should be approximately 175,000 housing starts in Canada whereas Quebec will record about 45,000 units.

These very favourable credit conditions will also mean two other benefits for the housing market: sustained growth in sales of existing houses and a substantial increase in renovation expenses. In Quebec, for example, investments in the range of $7.0 billion are expected in renovation as opposed to $4.6 billion for new construction.

In conjunction with this improvement in the residential sector, the demand for residential mortgage credit in Quebec and Canada, up slightly this year, will continue to grow in 1992 without, however, reaching the pace of expansion over the period 1985-1990. In fact, this continued growth will be made easier by the better affordability of mortgage rates and the very stiff competition among financial institutions as a result of the low demand for loans and the large supply of funds available.

N O T E

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Marc Pellerin, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7,
Tel.: (613) 748-2506.

For information regarding MBS please call
Jim Robertson, Director, MBS Centre, CMHC, Toronto
Tel.: (416) 756-0777.

Mortgage Market Trends is a quarterly publication. Enquiries regarding subscription should be directed to:
The Manager, Marketing & Communications, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7,
Tel.: (613) 748-2286 or FAX: (613) 748-2402.

Cette publication est aussi disponible en français sous le titre SCHL Tendances du marché hypothécaire – LNH 6109 1T/92

ISSN 1188-4215
Printed in Canada
Produced by the Public Affairs Centre, CMHC

Competitive Financing Renewal Process for Social Housing Loans

The government has saved more than $157.8 million in reduced subsidy requirements over the renewal term of social housing mortgage loans as a result of the Competitive Financing Renewal Process (CFRP) implemented in 1988. Prior to the implementation of a competitive process, most social housing loans renewed at the mid-point of the NHA range of mortgage rates. Social housing loans have also benefitted from the lower cost of funds through the NHA Mortgage-Backed Securities program.

With CFRP, these loans are now renewing at rates averaging over 80 basis points below the mid-point of the NHA range of mortgage rates. To the end of 1991, close to 2,700 mortgages totalling over $2.9 billion have been renewed via this public tender process. CMHC publishes a monthly listing of renewing mortgage loans on social housing projects and provides the list directly to all interested lenders. The lenders submit bids directly to the mortgagors (the sponsor groups) who in turn award their renewals to the lender bidding the lowest interest rate.

Government subsidies on social housing projects are based on the mortgage loan interest rate in effect from time to time. The lower the interest rate, the greater the subsidy savings. It is anticipated that the savings generated through CFRP will continue to increase. In 1992, approximately $1.2 billion mortgage loan renewals will be tendered under CFRP.

INDICATORS OF MORTGAGE LENDING ACTIVITY

NHA and Conventional Loans Approved (thousands of dollars)

	Banks		Life		Trust		Loan Companies		Other		TOTAL	
	Units	$000	Units	$000	Units	$000	Units	$000	Units	$000	Units	$000
1989	400,393	31,670,920	91, 975	4,276,572	216,101	16,775,248	73,112	6,205,826	13,636	894,430	795,217	59,822,996
1990	373,267	29,227,383	69,257	3,348,579	220,380	16,165,468	58,151	5,005,475	13,038	840,317	734,093	54,587,222
1991	364,572	29,076,602	76,602	4,010,014	167,439	10,958,375	67,807	4,997,821	17,277	1,186,276	693,697	50,229,088

NOTE: 1991 figures represent the first three quarters only.

Sales and purchases of insured NHA mortgages (millions of dollars) [1]

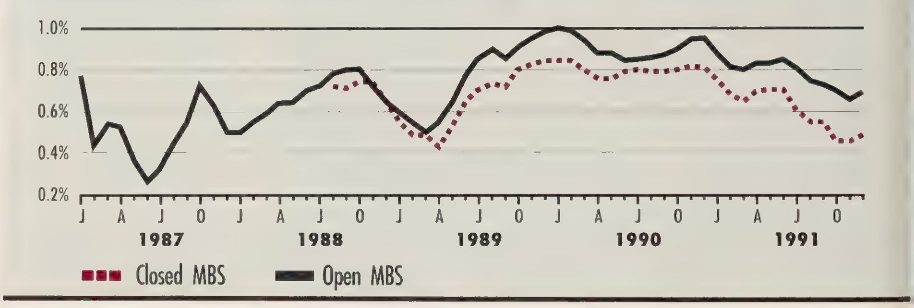
	Chartered Banks	Life Insurance	Trust Companies	Loan & Other Companies	Pension Funds	Corp.	Unicorp.	TOTAL
Sales - private secondary market								
1989	772.5	74.7	82.9	14.6	–	52.7	–	997.4
1990	747.2	31.7	7.2	6.8	–	28.7	–	821.6
1990 3Q	200.1	–	0.7	–	–	2.0	–	202.8
1990 4Q	237.4	–	6.4	–	–	6.7	–	250.5
1991 1Q	178.2	23.2	4.8	–	–	19.7	–	225.9
1991 2Q	194.3	–	34.9	–	–	10.4	–	239.6
1991 3Q	360.8	1.8	6.8	–	–	12.8	–	382.2
Purchases - private secondary market								
1989	55.7	49.2	93.7	689.8	36.3	57.3	15.4	997.4
1990	62.6	36.4	75.3	628.5	0.4	1.1	17.3	821.6
1990 3Q	1.6	3.3	–	195.7	0.1	–	2.1	202.8
1990 4Q	19.1	1.4	64.2	158.4	0.1	0.7	6.6	250.5
1991 1Q	23.4	2.3	20.9	157.2	0.2	18.7	3.2	225.9
1991 2Q	14.1	1.7	45.7	155.5	0.5	11.2	10.9	239.6
1991 3Q	146.5	3.0	46.8	175.3	1.2	5.5	3.9	382.2

1. Data for initial sales and purchases only. Subsequent sales and purchases are excluded.
Lending institutions are included under the appropriate category whether or not they are Approved Lenders under the National Housing Act.

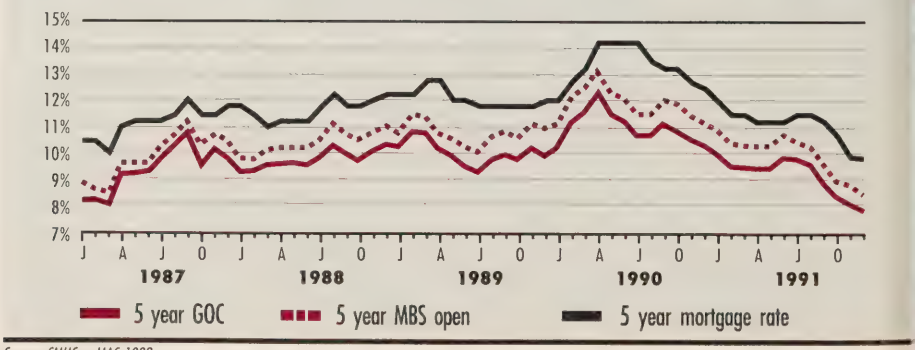
Mortgage-Backed Securities (millions $)

1988	$ millions	1989	$ millions	1990	$ millions	1991	$ millions
1Q	110.3	1Q	335.5	1Q	557.3	1Q	505.4
2Q	107.6	2Q	389.1	2Q	582.2	2Q	644.3
3Q	254.2	3Q	630.1	3Q	365.5	3Q	956.8
4Q	301.1	4Q	585.2	4Q	597.6	4Q	1080.9

Mortgage-Backed Securities historical spread analysis (MBS over GOC, 5 year maturity)



Historical interest rate analysis



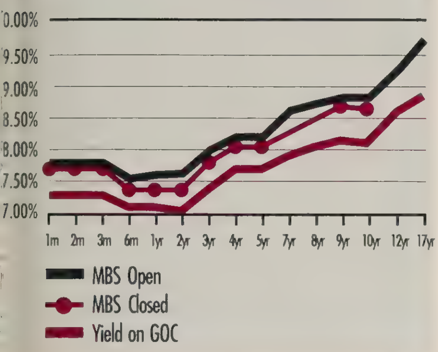
Source: CMHC – MAC 1992

NHA MORTGAGE-BACKED SECURITIES

NHA MBS MARKET PASSED THE $8 BILLION MARK IN 1991

Issues of NHA Mortgage Backed Securities (MBS) reached a record of 282 pools for a total of $3,187 million in 1991, up from the 177 MBS pools totalling $2,103 million in 1990. The cumulative value of issues excluding mature pools stood at $8,346 million at the end of 1991 in comparison with $5,272 million a year before.

NHA Mortgage-Backed Securities Yield Analysis – *December 31, 1991**



* Bid Side
Source: Burns Fry Limited — CMHC – MAC 1992

NHA Mortgage-Backed Securities Yield Analysis – *Market at 1:30 p.m. January 6, 1992**

GOC description				
Coupon Rate	Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
7.00%	12/93	Open	49	7.36%
9.25%	10/94	Open	53	7.66%
10.75%	12/95	Open	58	8.64%
10.75%	12/95	Closed	41	8.47%
9.25%	10/96	Open	63	8.04%
9.25%	10/96	Closed	44	7.85%
8.50%	04/02	Open	67	8.59%

* Bid Side
Source: Telerate; average for MBS traders — CMHC – MAC 1992

Similar to the third quarter, the fourth quarter contributed a great deal to the good figures for 1991. Both the number and the value of new issues reached new highs during the final quarter of the year. Lenders issued 80 MBS pools totalling $1,080.9 million in comparison with 72 issues for a total of $956.8 million during the third quarter.

Private residential pools accounted for approximately 65 per cent of issues in value while social housing's market share hovered at 29 per cent during the fourth quarter. Mixed and multiple pools accounted for the remaining 6 per cent. This is in sharp contrast to the first quarter when social housing accounted for more than 56 per cent of MBS issues in value because of weakness in the private residential housing market. In fact, social housing issues held steady in the $280-330 million range for every quarter of 1991.

The recovery in both the new construction and the resale segments of housing as a result of lower mortgage rates accounts for most of the continuing strength of the market. Five-year mortgage rates dropped to 9.9 per cent at the end of December, down 135 basis points from 11.25 per cent observed at the end of September.

Also, some lenders issued more MBS as they had difficulty attracting money in long-term deposits while demand for long-term mortgages was relatively high.

Furthermore, NHA MBS continued to be a relatively cheap source of funds for lenders as the spread between five-year mortgage rates and five-year Government of Canada Bonds (GOCs) remained over 210 basis points on average during the fourth quarter. A rising spread between five-year mortgage rates and five-year GOCs boosts profitability of lenders, everything else being equal since MBS yields move more or less in tandem with GOCs yields.

Lenders' profitability was also boosted by a lower liquidity premium of MBS over GOCs during the fourth quarter of 1991 as the pace of MBS issues increased resulting from better mortgage lending activity. Yield differential for the five-year maturity between NHA MBS with non-prepayable options (Closed MBS) and GOCs narrowed to 46 basis points in the fourth quarter from 57 basis points observed during the third quarter. This is the narrowest spread observed since the introduction of Closed MBS during the fourth quarter of 1988.

The spread between MBS with prepayable options (Open MBS) and GOCs for the five-year maturity declined by 10 basis points to 68 basis points during the final quarter of 1991. Open MBS carry higher yields than Closed MBS especially during periods of declining interest rates since investors need a premium to cover against the risk of higher prepayments on mortgages, which increases cash flow uncertainty.

Yield differentials between NHA MBS and GOCs are expected to narrow further in the next one or two quarters as declining mortgage rates will increase mortgage credit demand. This narrowing in spreads will be gradual as a sluggish recovery of the housing sector, as well as for the rest of the economy, is expected over the same period.

A PROFILE: THE MORTGAGE-BACKED SECURITY RETAIL INVESTOR

The Client Development and Services Group of Canada Mortgage and Housing Corporation (CMHC), National Office, recently undertook a research project on retail investors of Mortgage-Backed Securities (MBS). Using a lifestyles segmentation system, it was found that four main lifestyle groups, accounted for more than sixty percent of CMHC MBS retail investors: affluent, upscale, empty nest, and older & retired. This information could serve as valuable input to MBS marketing and product development.

LIFESTYLES MARKET SEGMENTATION SYSTEM

"Lifestyles" is a consumer behavior segmentation system developed by Compusearch Market and Social Research Limited. The segmentation system is based on the premise that similar households tend to live in close proximity to one another, sharing similar backgrounds, attitudes and behavior ie., "lifestyle". Knowing in advance the behavior of a representative sample of MBS investors from a specific lifestyle segment makes it possible to predict the behavior and location of all other Canadian households within the same lifestyle segment.

A detailed mathematical technique known as cluster analysis, which uses Canadian census and other Statistics Canada data was used to classify every household in Canada into one of 13 lifestyle groups (Table 1) and 70 geodemographic lifestyle clusters (segments) at the neighborhood level. CMHC MBS retail investors with certificates in their own names (9,364) were assigned into these groups on the basis of their postal code.

The combined effects of more than 200 interrelated socio-economic, geographic and demographic variables classify consumers into distinct lifestyles.

Table 1: 13 Lifestyle Groups

Urban 1	*Rural and Small Urban 2*
• Affluent • Upscale • Middle class • Working (blue collar) class • Low income • Young singles • Young couples • Empty nesters • Older & retired • Ethnic	• Rural & Small Urban-Upscale & Middle Class • Rural & Small Urban - Working Class & Low Income • Rural & Small Urban Farming

1. Census Metropolitan Areas and Census Agglomerations with population greater than 25,000
2. Rural areas, Census Agglomerations and other urban centres with less than 25,000 population

Source : Compusearch Ltd., 1991 CMHC – MAC 1992

Furthermore, the clusters within a lifestyle group are differentiated primarily by income, family structure and the age of household head.

LIFESTYLES INDEX

A lifestyles index, shown in Table 2, was used to measure the relative presence of MBS investors amongst households in a given area and to identify lifestyle segments having a disproportionate number of MBS investors.

Table 2: Lifestyles Index Ratio

$$\frac{\%\ \text{MBS investors in a particluar lifestyle cluster and geographic region}}{\%\ \text{of all households in the geographic region belonging to the above lifestyle cluster}} \times 100$$

Source : Compusearch Ltd., 1991 CMHC – MAC 1992

An index of 100 is a measure of average representation: MBS investors come from the lifestyles cluster in exactly the same proportion as they are represented in one of the six geographic regions. An index of less than 100 or more than 100 that means there is a lower than average or higher than average concentration of MBS investors in the lifestyle cluster relative to the total number of households in the base.

RESEARCH RESULTS

Separate profiles were obtained for:

1. Total MBS investors in six geographic regions: Canada; Maritimes; Quebec; Ontario; Prairies and Northwest Territories; and British Columbia & Yukon
2. Total MBS investors in Canada divided into four categories (based on the investors' total holdings):
   - under $10,000
   - $10,000 - $49,999
   - $50,000 - $99,999
   - $100,000 and over
3. Repeat MBS buyers in Canada.

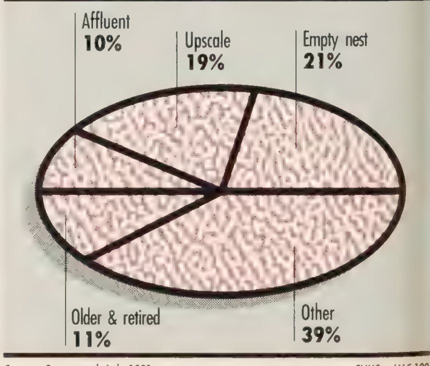
1. Total MBS Investors in Canada

Figure 1 illustrates the lifestyle profiles of total CMHC MBS investors in Canada. MBS investment differed in the other regions studied. However, four main lifestyle groups: (affluent, upscale empty nest, and older & retired) comprised 61 per cent of all CMHC MBS investors classified. Figure 2 shows the lifestyle distribution in Canada.

Affluent Lifestyle:

- wealthiest of all lifestyle groups, average household income = $128,000
- total expenditures are 2.3 times higher than the average Canadian household
- almost exclusively homeowners
- live in very expensive single-detached houses or luxury condominiums.
- age of the household ranges from 35 to retirement age

Figure 2: Profile Distribution MBS Retail Investors



Source : Compusearch Ltd., 1991 CMHC – MAC 199

- highly educated, with high status white collar occupations including professionals and upper management
- have large families with teenaged children who often attend private school

Affluent Lifestyle: (cont'd)

- live in very private neighborhoods, and big cities such as Mont Royal (Montreal) and Forest Hill (Toronto)

Upscale Lifestyle:

- incomes well above the national average, second to the affluent group
- total expenditures are 1.5 times the average Canadian household
- household heads are middle-aged, white collar workers, with school-aged children
- highly educated and have management and professional occupations
- live mostly in single-detached homes with a market value well above average

Empty Nest Lifestyle:

- people over the age of 55 whose children are not living at home
- mostly older married couples, however some clusters contain single person households
- live in different types of homes, but primarily single-detached
- national average proportion of homeowners
- able to allocate more of their disposable income to their own needs
- incomes and education levels vary greatly between the clusters - average annual income is $50,500 per household

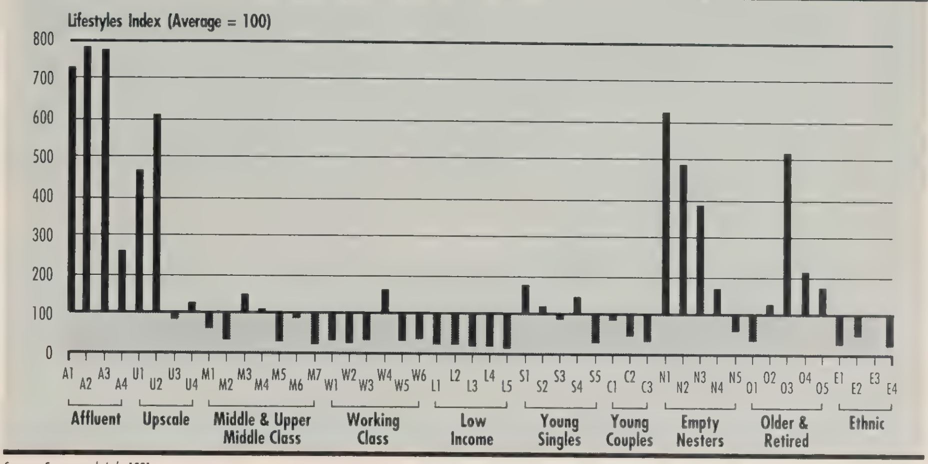
Older & Retired Lifestyle:

- high concentration of people over the age of 60
- older couples or widowed individuals with very few children living at home
- average annual income varies greatly from $15,400 to $41,800
- lower levels of education attained
- most have recently moved into condominiums and high rise apartments
- total household expenditures are 30% less than the average Canadian household

2. MBS Dollars Invested

In all lifestyle groups, the $10,000-$49,999 range was the most prevalent total MBS holding category with 62 per cent of total household investors, as shown in Figure 3.

Figure 1: Total MBS Holders in Canada Distribution by Urban Lifestyles

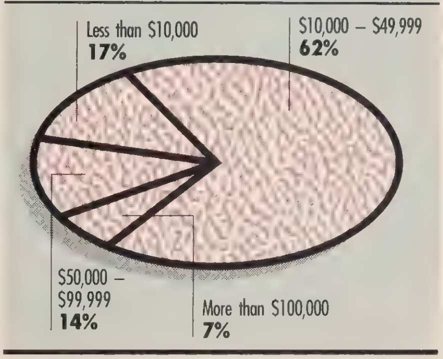


Source : Compusearch Ltd., 1991 CMHC – MAC 1992

3. Repeat MBS Investors

More than 3 per cent of all MBS holders classified were repeat MBS investors. This percentage is expected to increase as MBS product offerings diversify. Moreover, a previous study by Central

Figure 3: Total Value of MBS Holdings Among MBS Retail Investors



Source : Compusearch Ltd., 1991 CMHC – MAC 1992

Guaranty Trust in October 1989, found that "the best indicator of success of MBS was the willingness of owners to buy more...eight out of ten surveyed said they are likely to buy more when they have money to invest".

PROFILE IMPLICATIONS

Market research on retail MBS investors has been limited. However, the lifestyle profiles obtained by CMHC could aid in the selection and isolation of potential geographic areas for expansion. Furthermore, the lifestyle profiles provide a means to estimate the market potential for MBS investment in specific neighborhoods.

Potential MBS investors could be found in the lifestyle clusters having an index greater than 100, which represents a higher than average concentration of current MBS investors. This is based on the assumption that future MBS investors would come from the same lifestyle clusters as current MBS investors. However, increased market share could also be captured from lifestyles which currently have a below-average concentration of MBS investors, as more people may become aware of MBS and its associated benefits.

FUTURE RESEARCH

MBS is currently a product bought primarily by older, well-educated and well informed high-income buyers. Creating awareness in the retail market and thus interest to seek more information on MBS is paramount to increasing MBS market share.

Future research will attempt to further narrow the lifestyle target markets obtained in this study, by focusing on households within the selected clusters that are already investing in the financial market and/or other asset-backed securities.

Author: David Buchler,
acting Senior Marketing Specialist

For information regarding this article, please call: Christina Haddad, Senior Marketing Specialist (613) 748-4699 or write to:
Client Development and Services,
Insurance Directorate,
CMHC
700 Montreal Road
Ottawa, Ontario K1A 0P7

NHA Mortgage-Backed Securities Fourth Quarter Issues – October 1991 to December 1991

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yr
MONTH OF ISSUE: OCTOBER 1991						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96404017	TORONTO-DOMINION BANK	8,197,520.46	10.250	September 01, 2001	11.57	22.92
96404090	TORONTO-DOMINION BANK	5,545,653.50	10.125	August 01, 2001	11.57	13.17
96404124	SHOPPERS TRUST COMPANY	10,004,422.74	9.750	October 01, 1996	11.21	24.58
96404132	BANQUE NATIONALE DU CANADA	47,648,105.84	9.875	August 01, 1996	11.25	22.42
96404181	ROYAL TRUST COMPANY	50,000,005.83	9.750	September 01, 1996	11.26	23.75
96404199	FIRSTLINE TRUST COMPANY	2,346,181.88	10.125	October 01, 2001	11.57	24.92
96404207	FIRSTLINE TRUST COMPANY	2,004,467.98	10.125	October 01, 2001	11.59	17.17
96404215	PEOPLES TRUST COMPANY	2,044,415.25	10.625	July 01, 1996	11.26	24.58
96404223	FIRSTLINE TRUST COMPANY	30,000,259.97	9.625	October 01, 1996	11.31	24.92
96404256	FIRSTLINE TRUST COMPANY	5,000,453.51	9.250	October 01, 1994	11.00	24.92
96404264	FIRSTLINE TRUST COMPANY	2,003,588.06	9.250	October 01, 1994	9.97	24.92
96404280	VANCOUVER CITY SAVINGS C.U.	30,517,352.35	9.250	September 01, 1996	11.24	23.58
96404306	FIRSTLINE TRUST COMPANY	4,001,040.56	9.125	October 01, 1996	11.14	24.58
SOCIAL HOUSING POOLS						
99002776	TORONTO-DOMINION BANK	9,323,973.28	9.625	October 01, 1996	10.20	28.58
99002784	TORONTO-DOMINION BANK	8,171,515.87	9.625	October 01, 1996	10.20	27.92
99002792	BANK OF NOVA SCOTIA	10,299,952.79	9.375	October 01, 1996	10.22	25.42
99002800	CIBC MORTGAGE CORPORATION	16,073,622.33	9.375	October 01, 1996	10.22	27.67
99002818	CIBC MORTGAGE CORPORATION	2,681,044.61	10.000	October 01, 2001	10.61	30.00
99002826	ROYAL BANK OF CANADA	9,650,035.07	9.500	October 01, 1996	10.18	30.00
99002909	FIRSTLINE TRUST COMPANY	9,093,779.29	9.125	October 01, 1996	10.01	34.92
MONTH OF ISSUE: NOVEMBER 1991						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96404108	TORONTO-DOMINION BANK	6,885,371.23	10.250	September 01, 2001	11.55	16.58
96404231	BANQUE NATIONALE DU CANADA	47,005,876.39	9.500	September 01, 1996	11.29	22.50
96404249	BANQUE NATIONALE DU CANADA	89,023,062.71	9.500	September 01, 1996	11.25	15.83
96404272	SHOPPERS TRUST COMPANY	4,010,184.38	9.625	November 01, 1996	11.41	24.92
96404298	SHOPPERS TRUST COMPANY	3,025,481.95	8.875	October 01, 1996	11.10	24.67
96404314	CANADA TRUST COMPANY	100,984,739.10	9.125	November 01, 1996	11.27	24.08
96404322	SHOPPERS TRUST COMPANY	2,691,809.39	8.250	November 01, 1994	10.89	24.83
96404330	FIRSTLINE TRUST COMPANY	4,064,243.42	8.500	October 01, 1994	10.88	24.83
96404348	FIRSTLINE TRUST COMPANY	20,000,153.57	9.000	November 01, 1996	11.11	24.92
96404355	FIRSTLINE TRUST COMPANY	3,080,315.83	8.125	October 01, 1993	10.71	24.58
96404363	FIRSTLINE TRUST COMPANY	3,431,054.28	8.500	November 01, 1994	10.91	18.50
96404413	FIRSTLINE TRUST COMPANY	4,001,595.19	8.375	November 01, 1996	11.03	19.00
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500079	FIRSTLINE TRUST COMPANY	15,000,644.82	9.000	November 01, 1996	11.14	24.92
SOCIAL HOUSING POOLS						
99002735	MARITIME LIFE ASSURANCE CO.	8,719,427.73	8.875	November 01, 1996	10.37	27.08
99002842	BANK OF NOVA SCOTIA	4,719,827.94	9.125	November 01, 1996	9.99	27.75
99002859	ROYAL BANK OF CANADA	7,457,284.78	9.000	November 01, 1996	9.92	22.00
99002867	TORONTO-DOMINION BANK	11,666,311.13	9.250	November 01, 1996	9.86	28.83
99002875	CIBC MORTGAGE CORPORATION	8,317,650.53	9.125	November 01, 1996	10.02	26.75
99002883	ROYAL BANK OF CANADA	13,279,644.44	9.000	November 01, 1996	9.89	29.00
99002891	SUN LIFE ASSURANCE OF CANADA	16,565,737.99	7.875	November 01, 1993	11.68	32.00
99002917	BANK OF NOVA SCOTIA	2,426,401.20	9.125	November 01, 1996	10.02	23.58
99002966	FIRSTLINE TRUST COMPANY	16,396,507.10	8.375	November 01, 1996	9.31	34.92
99002974	CIBC MORTGAGE CORPORATION	8,875,323.77	8.125	November 01, 1996	9.59	35.00
MONTH OF ISSUE: DECEMBER 1991						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96404371	TORONTO-DOMINION BANK	5,310,726.90	9.500	November 01, 2001	11.69	16.58
96404389	BANQUE NATIONALE DU CANADA	10,833,589.07	8.750	October 01, 1996	11.27	16.08
96404397	BANQUE NATIONALE DU CANADA	21,127,594.81	8.750	October 01, 1996	11.30	22.75
96404405	LONDON LIFE INSURANCE CO.	4,988,346.29	8.500	October 01, 1996	11.22	24.25
96404421	SHOPPERS TRUST COMPANY	2,035,525.44	7.375	December 01, 1994	10.30	24.17
96404439	SHOPPERS TRUST COMPANY	2,308,642.70	9.000	November 01, 2001	11.32	24.17
96404454	FIRSTLINE TRUST COMPANY	4,500,901.79	9.000	November 01, 2001	11.09	24.92
96404462	FIRSTLINE TRUST COMPANY	2,000,900.62	9.000	December 01, 2001	11.26	17.00
96404470	CENTRAL GUARANTY TRUST CO.	11,958,413.38	8.750	November 01, 1996	11.27	22.58
96404488	CENTRAL GUARANTY TRUST CO.	11,459,886.25	8.750	November 01, 1996	11.31	16.33
96404496	CENTRAL GUARANTY TRUST CO.	5,918,739.72	8.250	November 01, 1994	10.95	22.92
96404504	CENTRAL GUARANTY TRUST CO.	3,970,100.54	8.500	November 01, 1996	11.31	12.75
96404512	SHOPPERS TRUST COMPANY	2,020,806.60	8.500	December 01, 1996	10.56	24.67
96404520	SHOPPERS TRUST COMPANY	13,143,038.79	8.500	December 01, 1996	10.76	24.83
96404538	FIRSTLINE TRUST COMPANY	6,384,510.97	7.875	December 01, 1994	10.31	24.83
96404546	FIRSTLINE TRUST COMPANY	2,716,929.61	7.250	December 01, 1993	10.09	24.83
96404553	FIRSTLINE TRUST COMPANY	2,985,598.68	7.875	December 01, 1994	10.33	17.92
96404561	FIRSTLINE TRUST COMPANY	2,012,910.13	8.125	November 01, 1996	9.99	24.67
96404579	VANCOUVER CITY SAVINGS C.U.	64,674,143.88	9.875	October 01, 1994	10.94	23.75
96404587	VANCOUVER CITY SAVINGS C.U.	12,088,840.00	10.125	October 01, 1996	11.28	24.00
96404595	FIRSTLINE TRUST COMPANY	19,593,164.57	8.250	December 01, 1996	10.81	17.58
96404603	FIRSTLINE TRUST COMPANY	2,708,222.21	8.250	November 01, 1996	11.39	17.00
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500087	FIRSTLINE TRUST COMPANY	55,000,867.24	8.625	December 01, 1996	10.34	24.92
SOCIAL HOUSING POOLS						
99002925	CIBC MORTGAGE CORPORATION	27,187,423.48	8.500	December 01, 1996	9.24	28.25
99002933	TORONTO-DOMINION BANK	10,180,416.95	8.750	December 01, 1996	9.54	26.83
99002941	BANK OF NOVA SCOTIA	12,457,039.55	8.500	December 01, 1996	9.33	27.33
99002958	BANK OF NOVA SCOTIA	2,693,733.37	8.500	December 01, 1996	9.21	21.50
99002982	FIDUCIE DESJARDINS INC.	4,126,315.00	8.250	December 01, 1996	8.84	35.00
99002990	ROYAL BANK OF CANADA	27,552,002.98	8.375	December 01, 1996	9.19	27.17
99003006	ROYAL BANK OF CANADA	3,855,501.00	8.375	December 01, 1996	9.20	22.00
99003014	TORONTO-DOMINION BANK	2,398,956.71	8.500	November 01, 1996	9.29	35.00
99003022	PEOPLES TRUST COMPANY	2,532,080.61	9.875	September 01, 1996	10.69	25.58
99003030	PEOPLES TRUST COMPANY	2,548,737.09	9.875	November 01, 1996	10.62	30.58
99003097	CIBC MORTGAGE CORPORATION	9,466,608.00	8.375	December 01, 1996	9.39	35.00
99003105	MARITIME LIFE ASSURANCE CO.	2,262,614.87	7.875	December 01, 1996	10.10	22.67
99003113	FIRSTLINE TRUST COMPANY	12,993,027.60	8.125	December 01, 1996	9.16	34.92
99003121	CIBC MORTGAGE CORPORATION	24,684,506.96	7.375	October 01, 1994	10.31	28.00

C M H C   M O R T G A G E   M A R K E T

TRENDS

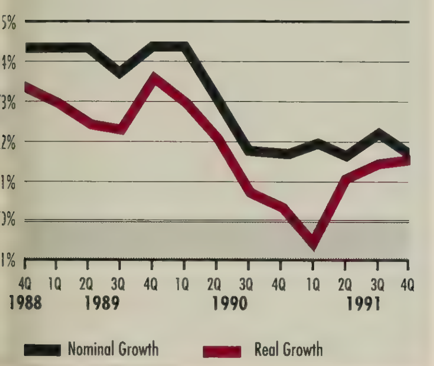
MARKET ANALYSIS CENTRE — APRIL 1992

MORTGAGE LENDING

MORTGAGE CREDIT GROWTH REMAINED SLUGGISH DURING THE FOURTH QUARTER OF 1991

Residential mortgage credit outstanding at banks, trust, life insurance, and loan companies, grew 1.7 per cent to $203.1 billion during the fourth quarter of 1991, down from the 2.1 per cent growth experienced in the preceding quarter. The outlook is for a moderate increase of mortgage credit over the next several quarters.

Residential Mortgage Credit Growth Nominal and Real *(from previous quarter)*



Source: Bank of Canada — *CMHC – MAC 1992*

Market Share of Residential Mortgage Credit

	4Q90	3Q91	4Q91
Banks	53.6%	55.0%	55.5%
Trust	37.6%	35.8%	35.3%
Life	8.1%	8.6%	8.7%
Sales & Loan	0.6%	0.5%	0.5%

Source: Bank of Canada — *CMHC – MAC 1992*

The sluggish growth of mortgage credit during the last three months of 1991 is in line with the softness of housing markets. CMHC estimates that MLS[1] sales of existing homes declined 9.9 per cent in the fourth quarter on a seasonally adjusted basis. This is a result of an 8.6 per cent drop in the number of units sold while prices posted a marginal decline of 1.2 per cent. Dwelling starts – seasonally adjusted at an annual rate – increased marginally to 181,000 units in the fourth quarter from 179,000 in the July-September period while the new home price index declined 0.1 per cent. After removing the effect of inflation, mortgage credit outstanding advanced 1.6 per cent in the fourth quarter of 1991 in comparison with 1.7 per cent during third quarter.

For the year as a whole, mortgage credit outstanding rose by only 8.0 per cent in comparison with 14.8 per cent in 1990 and over 18 per cent per year during the 1987-1989 period. Growth has not been this low since 1985 when mortgage credit was up 8.3 per cent. Real mortgage credit posted a similar pattern with a 2.3 per cent advance in 1991, down from 9.6 per cent in 1990.

This slower growth in mortgage credit occurred despite a decline of more than 2.5 percentage points in mortgage rates during last year. Furthermore, sales of existing houses in dollar terms had surged 25.7 per cent in 1991 in comparison with a decline of 25.3 per cent the year before. But a soft market for new housing dampened the impact on mortgage credit growth. Housing starts stood at 156,200 units in 1991 in comparison with 181,600 the year before. The new house price index dropped 6.9 per cent over the same period.

Banks' market share stood at 55.5 per cent of total mortgage portfolio over the fourth quarter of 1991, up slightly from 55 per cent during the previous quarter. The market share of trust companies declined slightly (-0.6 per cent) to 35.3 per cent while that of life insurers and finance companies held steady.

Preliminary data from banks for January and February suggest continual sluggish growth of mortgage credit outstanding during the first quarter of 1992 even though mortgage approvals surged in early March. Mortgage approvals picked up sharply at the beginning of March in response to the announcement of new measures to assist homebuyers. In February, the federal government allowed CMHC to insure mortgages with a 5 per cent downpayment compared to 10 per cent required previously. The goverment has also introduced the Home Buyers' Plan which allows Canadians to use funds from their registered retirement savings plans (RRSPs) for a downpayment on a home.

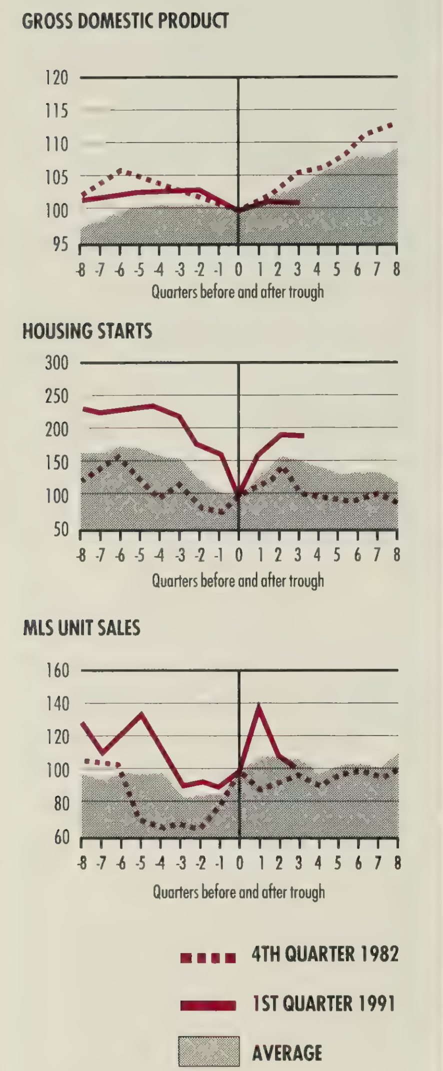
Despite the new initiatives, mortgage credit growth is expected to pick up only gradually over the next few quarters because of a sluggish economic recovery.

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

HOUSING AND MORTGAGE MARKETS AT CYCLICAL TURNING POINTS

The recession that ended in the first quarter of 1991 has been followed by a painfully slow recovery. How different is this from the experience of previous business cycles? How did housing and mortgage markets fare into the recession and the early phases of the expansion?

Figure 1 The Economy and Housing Markets at Cyclical Troughs*



** Cyclical through = 100*

Sources: Statistics Canada; CMHC *CMHC – MAC 1992*

The upper panel of this figure shows the level of GDP over the eight quarters preceding and following the cyclical trough. The variable is in index form, the trough quarter being set at 100. The three lines compare the time profile of this recession, with the previous one and with the average of the five contractions. A similar approach is used for other variables in Figures 1 and 2.

The analysis below shows that the current housing cycle has much in common with previous ones. During 1991, in spite of a partial economic recovery, housing and mortgage activity advanced strongly following declines in interest rates.

A FULL RECESSION FOLLOWED BY A PARTIAL RECOVERY

The recent recession starting in the second quarter of 1990 lasted four quarters and resulted in a drop of 3.1 per cent in real Gross Domestic Product. As can be seen from Table 1, this recession was less severe than the previous one that ended in the fourth quarter of 1982 after a contraction of 5.3 per cent in total economic activity over a period of six quarters. These two recessions, however, were deeper and lasted longer than the preceding three contractions when activity was cut by less than one per cent over short periods of one or two quarters. GDP movements during recessions and recoveries are shown in Figure 1.

While successive business cycles have much in common, each one has unique features. As a result, general explanations and predictions about the timing and amplitude of their various phases can only be tentative.

In 1981-82, the severity was due to a petroleum price shock and to the need to get inflation down, well below the two-digit range. In 1990-91, the severity was compounded by a rising dollar, the new GST, the imbalances due to the debt build-up during the long expansion of the 1980s, and the structural adjustment to the new world environment including free trade with the United States.

In spite of differences among recessions, the recoveries tended to be fairly similar, with economic activity posting solid rates of growth for several quarters after the trough. Four quarters after the trough, the economy has traditionally expanded by between 4.5 and 6.5 per cent. During the current recovery, however, the advance will likely be less than two per cent. This contrast is also evident in the employment performance. Employment has essentially remained flat compared to increases ranging from one to three per cent in the previous recoveries.

VOLATILE HOUSING MARKETS RECOVER STRONGLY

How have housing markets behaved? Housing starts tend to bottom out at the same time as overall economic activity or slightly before. The contraction phase, however, is very different from that of economic activity, lasting longer and going deeper. As shown in Table 2, housing starts tend to peak at least a year before the bottom of the recession and contract by between 40 and 60 per cent during that time period.

The 1990-91 recession has been especially severe for housing. Starts peaked at 255,000 units in the third quarter of 1987 and bottomed at 101,000 units in the first quarter of 1991: a period of three and a half years and a contraction of more than 60 per cent, with most of it taking place in the five quarters before the trough in economic activity. This high volatility of housing markets is due to the fact that housing investment decisions are very sensitive to the level of interest rates.

While the housing recession was severe by historical standards, the recovery has also been strong, exceeding the pace of the previous recoveries, as can be seen from the middle panel of Figure 1. Part of this narrow-V shape is due to the especially low level of starts in the first quarter of 1991. In spite of the strong rebound, however, starts remain below pre-recession levels.

As a result of this strong housing recovery with a weak economic recovery, housing investment has contributed to 67 per cent of the increase in GDP during the first three quarters since the trough. This is in sharp contrast to rates ranging between 15 and 30 per cent in previous recoveries. Over the business cycle, investment in residential construction is about seven per cent of total GDP.

Table 1 Contractions in Gross Domestic Product Since 1970

Contractions			Recoveries
Trough	Length (Quarters)	Peak-to-Trough % Decline	% Gain after Four Quarters
70 Q2	2	-0.7	5.7
75 Q1	1	-0.1	5.8
80 Q3	2	-0.6	4.5
82 Q4	6	-5.3	6.4
91 Q1	4	-3.1	1.2*
AVERAGE	**3**	**-2.0**	**4.7**

** After three quarters*

Source: Statistics Canada — CMHC – MAC 1992

The resale market historically bottoms out ahead of the economy. On average, over the last five contractions, the resale market has bottomed out three quarters before the trough, and surged strongly in the last quarter of the contraction. This pattern of recovery during recessions is due to resale markets reacting immediately to the decline in interest rates that occurs during recessions. The lower panel of Figure 1 shows that MLS[1] unit sales also made impressive gains in the first quarter of the recovery but then fell back. This is contrary to past recoveries when the level of sales steadied after the initial stages of the recovery.

MORTGAGE MARKETS PICK UP AS INTEREST RATES FALL

As in previous recoveries, the economy started recovering after several quarters of declines in interest rates. In the current cycle, rates began to drop three quarters before the cyclical trough. They have also continued to fall in the current recovery phase, just as in the previous one, as shown in Figure 2. In fact, five-year mortgage rates were 15.1 per cent at the end of the 1981-82 recession and remained on a downward trend for more than four years as the economy entered a period of low inflation.

The performance of mortgage markets at turning points can be appreciated by looking at mortgage approvals. The chart shows that approvals turn around one or two quarters before the economy's trough and expand further in the early stages of the recovery. The resale market is important here since mortgage approvals for existing dwellings outpace new home mortgages by seven to one. It is not surprising to see a pattern similar to that of the resale market.

Table 2 Housing Starts Cycles Since 1970

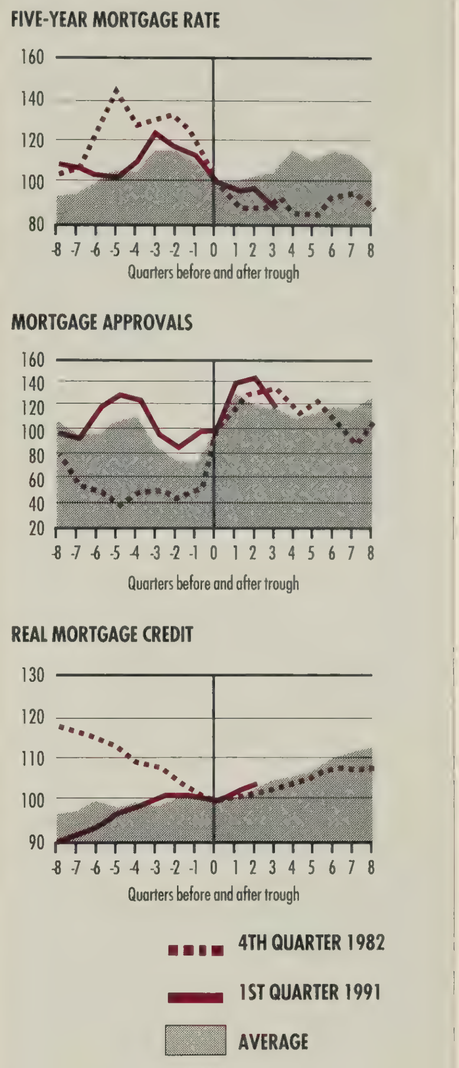
Peaks		Troughs		Contractions	
Date	Starts	Date	Starts	Length (Quarters)	% Decline
69 Q1	267	70 Q2	145	5	46
74 Q1	278	75 Q1	162	4	42
78 Q1	297	80 Q2	143	9	52
81 Q2	216	82 Q3	104	5	52
87 Q3	255	91 Q1	101	14	60

Source: CMHC – MAC 1992

In past recessions, mortgage credit continued to grow at least in nominal terms. When deflated, however, there is a sharp contrast. In the business contractions of the 1970s, mortgage credit continued to grow. In the recessions of 1980, 1982 and 1991, however, credit contracted. In 1980 and 1982, a combination of slow credit growth in nominal terms and double digit inflation resulted in a contraction of deflated credit for 11 quarters. From the first of 1980 to the last of 1982, mortgage credit saw a contraction of 16 per cent in real terms. In the current recession, credit contracted by less than one per cent in the last quarter of the recession.

continued on page 4

Figure 2 Mortgage Markets at Cyclical Troughs*



** Cyclical through = 100*

Sources: Statistics Canada; CMHC — CMHC – MAC 1992

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

continued from page 3

HOUSING AND MORTGAGE MARKETS WILL CONTINUE TO RECOVER

Because of the modest pace of the current economic recovery and a housing recovery that is still not complete, there is room for further advances in housing and mortgage markets. This year and next, additional support is also expected from new programs such as 95 per cent mortgage loan insurance and the use of RRSPs for home buying.

In the First Quarter 1992 National Housing Outlook published by CMHC, housing starts were forecast to rise from 156,200 units in 1991 to 180,000 units in 1992 and to slightly more than 200,000 units in 1993. Unit sales on the resale market were expected to increase by about four per cent in 1992 and six per cent in 1993. In line with this, mortgage credit outstanding should rise by about ten per cent this year and by slightly more than ten per cent in 1993.

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Marc Pellerin, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 756-0777.

Mortgage Market Trends is a quarterly publication. Enquiries regarding subscription should be directed to: The Manager, Marketing & Communications, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2286 or FAX: (613) 748-2402.

Cette publication est aussi disponible en français sous le titre SCHL Tendances du marché hypothécaire – LNH 6109 2T/92

ISSN 1188-4215
Printed in Canada
Produced by the Public Affairs Centre, CMHC

INDICATORS OF MORTGAGE LENDING ACTIVITY

NHA and Conventional Loans Approved (thousands of dollars)

	Banks		Life		Trust		Loan Companies		Other		TOTAL	
	Units	$000	Units	$000	Units	$000	Units	$000	Units	$000	Units	$000
1989	400,393	31,670,920	91,975	4,276,572	216,101	16,775,248	73,112	6,205,826	13,636	894,430	795,217	59,822,996
1990	374,687	29,337,048	65,335	3,189,780	229,556	17,052,053	58,207	5,010,575	13,570	859,624	741,355	55,449,080
1991	474,066	38,231,646	86,768	4,697,423	230,015	15,282,828	135,037	9,619,612	22,093	1,513,947	947,979	69,345,456

NOTE: 1990 figures are revised. The 1991 figures represent the four quarters.

Sales and purchases of insured NHA mortgages (millions of dollars) [1]

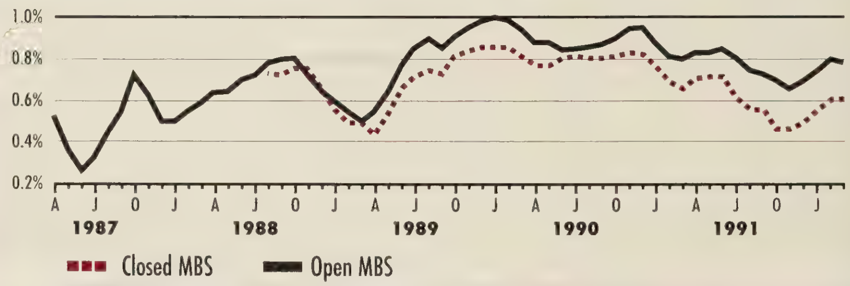
	Chartered Banks	Life Insurance	Trust Companies	Loan & Other Companies	Pension Funds	Corp.	Unicorp.	TOTAL
SALES - PRIVATE SECONDARY MARKET								
1990	**747.2**	**31.7**	**7.2**	**6.8**	**-**	**28.7**	**-**	**821.6**
1990 3Q	200.1	–	0.7	–	–	2.0	–	202.8
1990 4Q	237.4	–	6.4	–	–	6.7	–	250.5
1991	**1,239.4**	**31.3**	**52.0**	**1.4**	**-**	**80.7**	**-**	**1,404.8**
1991 1Q	178.2	23.2	4.8	–	–	19.7	–	225.9
1991 2Q	194.3	–	34.9	–	–	10.4	–	239.7
1991 3Q	360.8	1.8	6.8	–	–	12.8	–	382.2
1991 4Q	506.1	6.3	5.5	1.4	–	37.8	–	557.1
PURCHASES - PRIVATE SECONDARY MARKET								
1990	**62.6**	**36.4**	**75.3**	**628.5**	**0.4**	**1.1**	**17.3**	**821.6**
1990 3Q	1.6	3.3	–	195.7	0.1	–	2.1	202.8
1990 4Q	19.1	1.4	64.2	157.4	0.1	0.7	6.6	250.5
1991	**266.9**	**17.2**	**209.3**	**853.3**	**2.0**	**35.4**	**20.7**	**1,404.8**
1991 1Q	23.4	2.3	20.9	157.2	0.2	18.7	3.2	225.9
1991 2Q	14.1	1.7	45.7	155.5	0.5	11.2	10.9	239.7
1991 3Q	146.5	3.0	46.8	175.2	1.2	5.5	3.9	382.2
1991 4Q	82.8	10.2	95.9	365.4	0.1	–	2.7	557.1

1. Data for initial sales and purchases only. Subsequent sales and purchases are excluded.
Lending institutions are included under the appropriate category whether or not they are Approved Lenders under the National Housing Act.

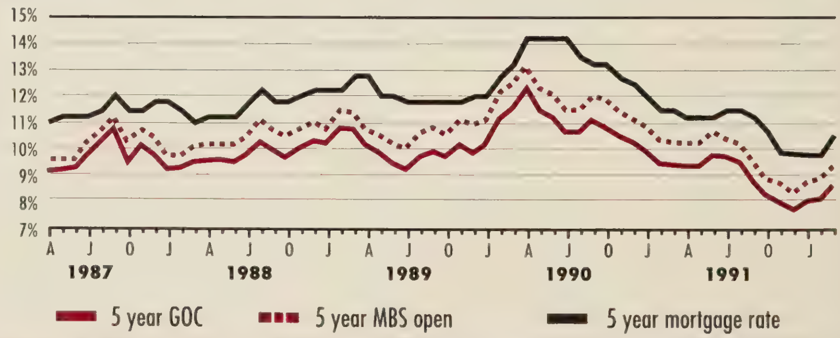
Mortgage-Backed Securities (millions $)

1988	$ millions	1989	$ millions	1990	$ millions	1991	$ millions	1992	$ millions
1Q	110.3	1Q	335.5	1Q	557.3	1Q	505.4	1Q	910.7
2Q	107.6	2Q	389.1	2Q	582.2	2Q	644.3		
3Q	254.2	3Q	630.1	3Q	365.5	3Q	956.8		
4Q	301.1	4Q	585.2	4Q	597.6	4Q	1080.9		

Mortgage-Backed Securities historical spread analysis (MBS over GOC, 5 year maturity)



Historical interest rate analysis



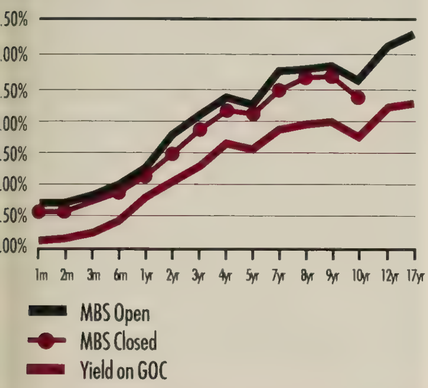
Source: CMHC – MAC 1992

NHA MORTGAGE-BACKED SECURITIES

NHA MBS ISSUES REMAINED HIGH DURING THE FIRST QUARTER OF 1992

NHA Mortgage-Backed Securities (MBS) issues totalled $910.7 million during the first three months of the year, down from the all time record of $1,080.9 million observed during the fourth quarter of 1991. A total of 63 pools were issued during the first quarter of 1992 in comparison with 80 in the previous quarter. Since the inception of the program, 840 pools have been issued totalling $9.37 billion.

IHA Mortgage-Backed Securities Yield Analysis – *March 31, 1992**



*Bid Side
urce: Burns Fry Limited — CMHC – MAC 1992

IHA Mortgage-Backed Securities Yield Analysis – *Market at 3:50 p.m. March 31, 1992**

GOC description				
upon ate	Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
7.50%	3/94	Open	59	8.56%
9.25%	10/94	Open	62	8.92%
10.75%	12/95	Open	67	9.18%
10.75%	12/95	Closed	52	9.14%
9.25%	10/96	Open	73	9.36%
9.25%	10/96	Closed	54	9.17%
8.50%	04/02	Open	79	9.51%

*Bid Side
urce: Telerate; average for MBS traders — CMHC – MAC 1992

For the first time, the value of NHA MBS issues remained above the $900 million mark for a third consecutive quarter. Social housing pools contributed to a great extent to high levels of issues in the first quarter of 1992. They totalled $405 million in comparison with $308.7 million during the preceding quarter. Issues of residential private pools fell to $470.7 million from the exceptional amount of $702.3 million observed during the preceding quarter. In a period of declining interest rates, issuers exploited the unusual high spreads between mortgage rates on loans made up to six months old and the lower coupon rate on new NHA MBS. These mortgage loans were included in the new NHA MBS pools having much lower coupon rates.

Issues of private residential pools still remained good in the first quarter of 1992 with the month of March accounting for nearly 43 per cent of the activity in the quarter. Mortgage loans usually surge in March. In addition, lenders faced a huge demand for funds in reaction to the announcement of new measures to assist homebuyers at the end of February (refer to the article on page 1 for details).

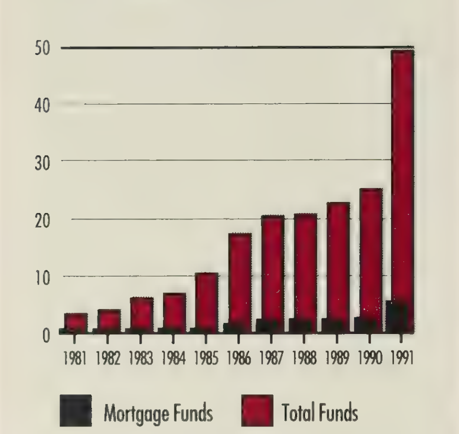
Furthermore, NHA MBS continued to be a relatively cheap source of funds for lenders especially in March as the spread between five-year mortgage rates and five-year Government of Canada Bonds (GOCs) hovered around 200 basis points. A rising spread between five-year mortgage rates and five-year GOCs boosts profitability of lenders, everything else being equal since MBS yields tend to move in tandem with GOCs yields. This differential was relatively low in January and in February, staying below 180 basis points. A relatively sluggish demand for mortgages at the beginning of the year persuaded the lenders to adopt a relatively low mortgage rates policy in comparison to yields on GOCs until the demand for mortgages picked up in March. For instance, after falling to a 19-year low of 9.75 per cent in January from 9.9 per cent observed in December, five-year mortgage rates bounced back to 10.50 per cent in March. Mortgage rates are still low in comparison to levels observed since the mid-seventies.

Yield differentials on NHA MBS and five-year GOCs increased during the first quarter since investors prefer to increase the liquidity of their assets when interest rates rise. On MBS with non-prepayable options (Closed MBS), the spread was 58 basis points during the first quarter, up 12 basis points from 46 basis points in the fourth quarter. For MBS with prepayable options (Open MBS), yields also rose in the first quarter to 78 basis points from 68 basis points in the preceding quarter. Open MBS require a higher yield than Closed MBS since investors need to be compensated for the uncertainty in cash flows associated with prepayments on mortgages.

CREDIT SECURITIZATION AND MORTGAGE MUTUAL FUNDS

Credit securitization is a growing source of funds for corporations and financial institutions. One of the most outstanding successes is NHA Mortgage-Backed Securities. Mortgage mutual funds are also providing a good source of funds for mortgage lenders, increasing the liquidity of the mortgage market.

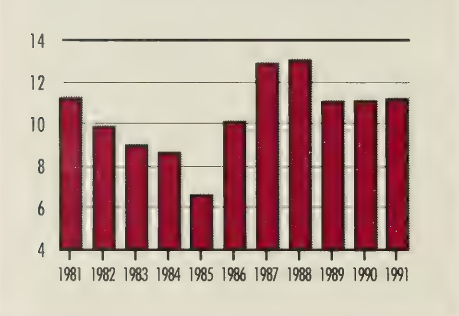
Figure 1 Net Assets of IFIC Members ($ billion as at Dec. 31)



Prior to 1991, IFIC membership represented 75-80 per cent of the Investment Fund Industry and 99 per cent then after.

Source: IFIC CMHC – MAC 1992

Figure 2 Share of Mortgage Funds in Percentage of the Total Mutual Funds



Source: IFIC CMHC – MAC 1992

THE MUTUAL FUND INDUSTRY

The mutual fund industry enjoyed outstanding growth in 1991. Figures from the Investment Funds Institute of Canada (IFIC) show that for the year ended December 1991, gross sales for all mutual funds in Canada soared by $25 billion (+100 per cent) from an estimated $1.4 billion increase the year before. Total assets reached $49.9 billion in December 1991 in comparison with $24.9 billion at the end of 1990 (figure 1). There was a further increase to $52.8 billion in January 1992. Part of the 1991 increase can be explained by IFIC's more thorough coverage of industry sales data. Prior to 1991, sales figures represented about 75 to 80 per cent of all funds in Canada, while the 1991 figures represented 99 per cent of all funds.

One important development in the mutual funds industry is the growing presence of major banks and trust companies.

One important development in the mutual funds industry is the ever growing presence of the major banks and trust companies. While the Canadian mutual fund industry is still dominated by the traditional independent fund distributors, banks and trust companies are moving aggressively into the market.

MORTGAGE MUTUAL FUNDS

Participating in the growth of the mutual fund industry were mortgage mutual funds. Year-over-year growth in net mortgage assets (sales less redemptions) to December of last year was 103 per cent, resulting in total net assets of $5.7 billion, which is slightly more than 11 per cent of total mutual fund assets, as indicated in figure 2.

Mortgage funds generally hold investments with an average term of three years. Figures released by IFIC show that in terms of net new money, mortgage funds were, in 1991, running second only to money market funds.

Mortgage mutual funds are not regarded as mortgage-backed securitie although the units purchased by inves- tors are secured by mortgages, mainly first NHA and conventional uninsured Unlike NHA MBS, mortgage mutual fund units can not be sold directly on the market but can be redeemed follow ing notice by the unit holder. When sold to mutual funds, mortgage loans are written off on lenders' books just as for MBS. The sale of the mortgages through the fund provides the lender with an additional source of funds different from Guaranteed Certificates (GIC's) or term deposits, to originate new mortgages.

The anticipated future growth of mortgage mutual funds and mortgage backed securities bodes well for the ongoing supply of funds into the already amply funded Canadian mortgage market. This trend will ensure that mortgage borrowers continue to be well served in terms of a broad choice of residential mortgage products at very competitive interest rates.

Author: Joe O'Brien, Vice-President, Special Projects FirstLine Trust, a Manulife Financial Subsidiary, an the major issuer of NHA Mortgage-Backed Securities

PROFILE OF THE CANADIAN MBS MARKET

NHA Mortgage-Backed Securities (MBS) have been in existence for almost five years and have gained widespread acceptance. The use of MBS continues to be more prevalent in certain provinces and with specific types of institutions. However, there have been some changes to trends in the past year.

The majority of the total active MBS pools (64 per cent) are insured market residential pools of single units as indicated by graph 1. Thirty-three per cent are social housing pools. Another three per cent are pools of multiples or mixed social and insured market residential pools. The value of issues for both market residential and social housing pools has continued to climb, although social housing pools have been growing at a somewhat faster rate in the last two years due to declining residential construction along with the economy. Market residential pools were 56 per cent of 1991's business, while social housing pools were 37 per cent.

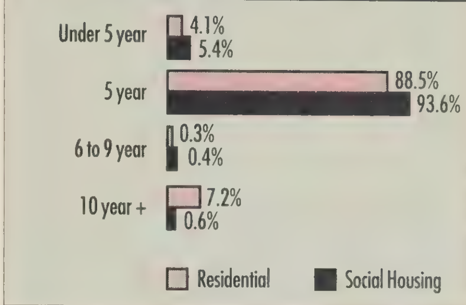
Trust companies dominate MBS activity, with 66 per cent of the total value of current active pools (graph 2). However, banks are using MBS more and more. While their percentage of overall activity from the start of the program was 30 per cent, they accounted for 40 per cent of 1991 activity. The break down of activity, however, is quite different between social housing pools and insured market residential pools. Trusts account for 79 per cent of the residential pools and only 36 per cent of social pools. Trusts, particularly the smaller trusts, tend to use MBS as it allows them to raise capital at a lower cost, giving them the same access to capital as larger institutions. Banks generally have available funds and do not need to raise capital through MBS. They are more heavily into social housing pools as this allows them to benefit from economies of scale.

Most of the insured market residential pools (88 per cent) have had terms of five years since the inception of the program. Terms of under five years were introduced in 1990 to satisfy the pent up demand. They accounted for roughly 12 per cent of 1991 activity in comparison with four per cent since 1987. Demand for longer term mortgages has grown as interest rates have declined. Pools with terms of over ten years have increased to slightly over seven per cent in 1991 as opposed to five per cent over the last five years. The vast majority of social housing pools also have terms of five years (94 per cent). While there are also five per cent of social pools having terms under four years, these are special cases which require shorter terms and do not indicate a trend.

...demand for longer term mortgages has grown

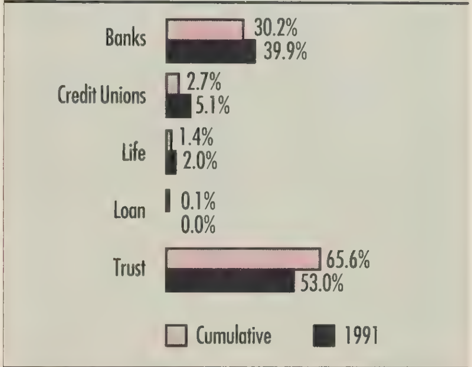
On a regional basis, the majority of MBS issues come from Ontario, which accounts for 54 per cent of total activity. This is far above Ontario's proportion of NHA activity, which is 35 per cent of the total over the same period. Generally, the regional distribution of MBS is related not to NHA activity, but to the location of banks and trusts involved in the MBS business. Trusts activities are mainly located in Ontario. The second largest province for MBS is B.C., which also has a proportion of MBS (20 per cent) which is higher than its share of NHA activity (14 per cent). As indicated by graph 3, Quebec and Prairies have significantly lower shares of MBS activity compared to their portions of NHA activity. In 1991, Quebec increased its share of MBS, while Prairies decreased its share.

Graph 1 Cumulative Distribution of MBS Maturities



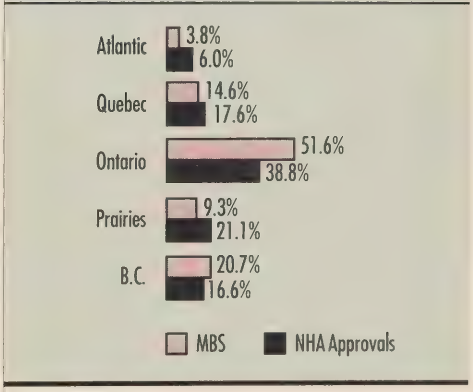
Source CMHC – MAC 1992

Graph 2 Market Share of MBS Issuers



Source CMHC – MAC 1992

Graph 3 Regional Distribution in 1991



Source CMHC – MAC 1992

NHA Mortgage-Backed Securities First Quarter Issues – January 1992 to March 1992

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: JANUARY 1992						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96404447	TORONTO-DOMINION BANK	4,502,205.38	8.875	November 01, 2001	11.66	13.33
96404637	PEOPLES TRUST COMPANY	2,536,659.60	10.375	November 01, 1996	11.23	24.67
96404645	SHOPPERS TRUST COMPANY	8,003,937.19	8.250	January 01, 1997	9.84	24.67
96404652	FIRSTLINE TRUST COMPANY	45,000,118.92	8.375	March 01, 1997	9.93	24.92
96404660	SHOPPERS TRUST COMPANY	2,775,276.26	8.875	January 01, 2002	10.24	24.58
96404678	SHOPPERS TRUST COMPANY	4,494,173.00	8.250	January 01, 1997	9.99	24.67
96404686	SHOPPERS TRUST COMPANY	14,640,160.24	8.125	January 01, 1997	9.72	24.67
96404702	LONDON LIFE INSURANCE CO.	4,464,331.78	8.125	December 01, 1996	11.21	18.92
96404710	FIRSTLINE TRUST COMPANY	20,000,383.19	8.250	March 01, 1997	9.81	24.83
96404728	SHOPPERS TRUST COMPANY	2,435,363.71	7.750	January 01, 1995	9.63	24.92
96404736	VANCOUVER CITY SAVINGS C.U.	7,976,861.56	7.625	November 01, 1994	10.56	24.25
96404744	VANCOUVER CITY SAVINGS C.U.	6,596,038.44	7.875	November 01, 1996	10.79	24.17
96404751	FIRSTLINE TRUST COMPANY	20,000,481.76	7.875	February 01, 1997	9.93	18.25
SOCIAL HOUSING POOLS						
99003048	CIBC MORTGAGE CORPORATION	5,369,223.72	7.750	July 01, 1996	8.63	27.17
99003055	CIBC MORTGAGE CORPORATION	32,166,863.29	7.875	January 01, 1997	8.66	27.25
99003063	TORONTO-DOMINION BANK	4,319,298.84	8.000	January 01, 1997	8.62	30.00
99003071	TORONTO-DOMINION BANK	12,070,300.54	8.125	January 01, 1997	8.63	25.00
99003089	BANK OF NOVA SCOTIA	14,194,036.03	7.875	January 01, 1997	8.61	27.25
99003139	ROYAL BANK OF CANADA	26,745,943.38	7.875	January 01, 1997	8.58	25.25
99003147	ROYAL BANK OF CANADA	18,297,018.77	7.875	January 01, 1997	8.63	30.67
99003246	CIBC MORTGAGE CORPORATION	38,020,766.00	8.250	January 01, 1997	9.06	34.17
99003279	FIRSTLINE TRUST COMPANY	24,028,121.46	7.375	January 01, 1997	8.75	34.92
MONTH OF ISSUE: FEBRUARY 1992						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96404611	BANQUE NATIONALE DU CANADA	12,434,911.17	8.250	December 01, 1996	10.84	15.83
96404629	BANQUE NATIONALE DU CANADA	25,534,218.52	8.375	December 01, 1996	10.90	22.50
96404694	BANQUE NATIONALE DU CANADA	38,655,871.76	7.750	December 01, 1996	9.94	22.67
96404785	FORTIS TRUST CORPORATION	3,015,403.41	7.625	December 01, 1996	11.30	24.33
96404793	SHOPPERS TRUST COMPANY	15,061,906.67	7.750	February 01, 1997	9.75	24.50
96404827	LONDON LIFE INSURANCE CO.	4,887,320.00	8.000	December 01, 1996	11.21	24.08
96404843	FIRSTLINE TRUST COMPANY	13,000,041.48	8.500	April 01, 1997	9.82	18.17
96404850	FIRSTLINE TRUST COMPANY	10,000,747.88	8.500	April 01, 1997	9.66	17.83
96404876	FIRSTLINE TRUST COMPANY	2,852,694.81	7.250	March 01, 1994	9.25	24.50
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500095	FIRSTLINE TRUST COMPANY	35,000,013.65	8.500	April 01, 1997	9.85	24.58
SOCIAL HOUSING POOLS						
99003154	PEOPLES TRUST COMPANY	2,190,138.89	8.125	February 01, 1997	9.52	23.75
99003162	TORONTO-DOMINION BANK	6,628,265.08	8.000	February 01, 1997	8.59	27.08
99003170	TORONTO-DOMINION BANK	10,288,470.04	8.000	February 01, 1997	8.57	25.00
99003188	CIBC MORTGAGE CORPORATION	22,673,660.10	7.750	February 01, 1997	8.59	26.08
99003196	CIBC MORTGAGE CORPORATION	7,311,355.06	7.750	February 01, 1997	8.61	24.75
99003238	FIDUCIE DESJARDINS INC.	3,389,013.74	8.125	February 01, 1997	8.99	26.33
99003253	BANK OF NOVA SCOTIA	2,588,843.14	7.625	January 01, 1997	8.86	34.92
99003261	BANK OF NOVA SCOTIA	7,047,913.63	7.625	February 01, 1997	8.75	26.58
99003287	ROYAL BANK OF CANADA	11,024,561.14	7.875	February 01, 1997	8.59	26.33
99003311	CIBC MORTGAGE CORPORATION	22,809,057.00	8.375	February 01, 1997	9.22	35.00
99003345	FIRSTLINE TRUST COMPANY	25,781,312.43	8.000	February 01, 1997	9.17	34.92
MONTH OF ISSUE: MARCH 1992						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96404801	BANQUE NATIONALE DU CANADA	39,766,867.80	8.500	January 01, 1997	9.76	16.00
96404819	BANQUE NATIONALE DU CANADA	59,627,372.28	8.375	January 01, 1997	9.67	22.92
96404835	TORONTO-DOMINION BANK	2,479,707.03	8.875	December 01, 2001	11.66	22.83
96404868	SHOPPERS TRUST COMPANY	18,416,870.47	7.875	March 01, 1997	9.51	24.42
96404892	FIRSTLINE TRUST COMPANY	5,695,823.93	8.375	February 01, 1995	9.69	24.50
96404900	VANCOUVER CITY SAVINGS C.U.	33,053,405.31	8.500	February 01, 1997	9.97	23.75
96404934	FIRSTLINE TRUST COMPANY	16,679,757.45	8.625	May 01, 1997	9.73	24.67
96404942	FIRSTLINE TRUST COMPANY	10,571,876.29	8.625	May 01, 1997	9.60	17.92
96404959	FIRSTLINE TRUST COMPANY	2,133,951.24	9.000	May 01, 2002	10.18	17.58
96404967	FIRSTLINE TRUST COMPANY	3,397,119.80	9.000	May 01, 2002	10.22	23.92
96404991	FIRSTLINE TRUST COMPANY	5,000,012.36	9.125	May 01, 2002	9.88	24.33
96405006	FIRSTLINE TRUST COMPANY	5,000,112.38	8.625	February 01, 1997	9.56	24.25
SOCIAL HOUSING POOLS						
99003204	MARITIME LIFE ASSURANCE CO.	5,737,781.69	8.000	January 01, 1997	9.17	29.92
99003295	TORONTO-DOMINION BANK	11,230,492.83	7.750	March 01, 1997	8.46	25.33
99003303	CIBC MORTGAGE CORPORATION	10,808,060.51	7.625	March 01, 1997	8.48	25.00
99003329	BANK OF NOVA SCOTIA	17,557,555.99	7.875	March 01, 1997	8.79	33.25
99003337	BANK OF NOVA SCOTIA	2,200,310.33	8.000	February 01, 1997	8.75	17.50
99003378	CIBC MORTGAGE CORPORATION	36,254,426.00	8.500	March 01, 1997	9.30	35.00
99003394	TORONTO-DOMINION BANK	2,280,767.62	9.000	January 01, 1997	10.51	34.42
99003410	FIRSTLINE TRUST COMPANY	22,002,081.45	8.375	March 01, 1997	9.35	34.92

CMHC MORTGAGE MARKET

TRENDS

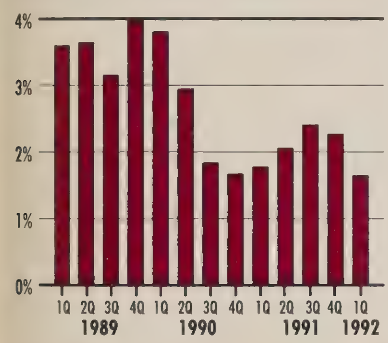
MARKET ANALYSIS CENTRE JULY 1992

MORTGAGE LENDING

MORTGAGE CREDIT EXPANDS MODERATELY DURING THE FIRST HALF OF 1992

Residential mortgage credit expanded by 1.6 per cent in the first quarter of 1992 and by an estimated 2.0 per cent during the second quarter, to $263.3 billion. These numbers reflect a more comprehensive and up-to-date system for measuring outstanding mortgage credit.

Residential Mortgage Credit Growth*
(from previous quarter)



* Nominal
Source: Bank of Canada CMHC – MAC 1992

Market Share of Residential Mortgage Credit

	1Q91	4Q91	1Q92
Banks	43.4%	44.4%	44.7%
Trust	29.7%	27.9%	27.2%
Caisses & Co-op	13.3%	13.8%	14.0%
Life	7.1%	7.2%	7.3%
Pension Funds	3.6%	3.5%	3.5%
Fin. & Loan	2.9%	3.2%	3.3%

Source: Bank of Canada CMHC – MAC 1992

With sputtering activity on housing markets during the first half of the year, the growth of outstanding mortgage credit has continued at the moderate pace of 1.5-2.5 per cent per quarter. This pace has prevailed since the middle of 1990.

During the first quarter of the year, mortgage credit expanded by 1.6 per cent to $258.0 billion, following three quarters of growth slightly above 2.0 per cent. The slowdown reflected the combined effect of lower starts and easing price trends, partly offset by a more active resale market.

Housing starts dropped to 153,000 units in the first quarter from 181,000 units at the end of 1991. On the existing market, sales through the MLS system(1) surged 17 per cent to an annual rate of 311,200 units during the quarter. Price easing on the new and existing market reflects an underlying trend of stable pricing as well as concentrated activity in the first-time homebuyer market. This market mix reflects the normal pattern at this stage of the cycle as well as the favourable response to CMHC's First Home Loan Insurance Program.

Mortgage credit is expected to have posted growth of 2.0 per cent during the second quarter, to $263.3 billion. This CMHC estimate is based on partial results for the quarter. The more rapid pace is due to a rebound of the new market to 165,000 units, while the resale market is estimated to have posted further gains.

Housing demand and mortgage market activity is restrained by consumer attitudes in the face of uncertain economic prospects and, at best, stable real estate prices. There are, however, signs of improving conditions for housing markets and for lenders. The Canadian Bankers Association, for instance, has reported that mortgage arrears have inched down since last February when they reached 0.65 per cent at the national level.

Mortgage credit by type of institution was as follows for the first quarter: shares of the total were expanding at banks (44.7 per cent of the total), caisses populaires and credit unions (14.0 per cent), and finance and loan companies (3.3 per cent). They were declining at trust companies (27.2 per cent), while they held relatively steady at life insurance companies (7.3 per cent) and pension funds (3.5 per cent).

NOTE: This discussion of mortgage credit outstanding reflects a more comprehensive and more up-to-date coverage of mortgage issuing institutions. In particular, information for caisses populaires, credit unions and pension funds is now available on a monthly basis and at the same time as for other institutions. This new set of data provided by the Bank of Canada will allow for more timely and more thorough analysis of the mortgage market in Mortgage Market Trends.

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

LONG-TERM HOUSING REQUIREMENTS AND DEMOGRAPHICS

Through the remainder of this century and into the next, demographic developments will determine the level, composition, and location of housing demand in Canada. The three most important of these developments are population growth, a changing age structure, and shifts in household formation patterns.

Between 1956 and 1986, the population of Canada grew at a declining rate. High rates of population growth resulting from the baby boom gave way to declining fertility and decelerating growth. This trend toward declining population growth (Figure 1) is being reversed temporarily until the mid 1990's as a result of higher immigration. Federal government targets set annual immigration at 250,000 in 1992 and future years. This compares to average immigration levels of just under 110,000 annually between 1976 and 1986 (Figure 2). The increase in immigration will not be sufficient to sustain higher growth over the long term, however. Beginning in the mid-1990's, the long-run pattern of declining growth will reassert itself. Three factors are behind the persistence of this decline: the passing of the baby boom generation out of the child bearing years, an aging population, and relatively low fertility rates.

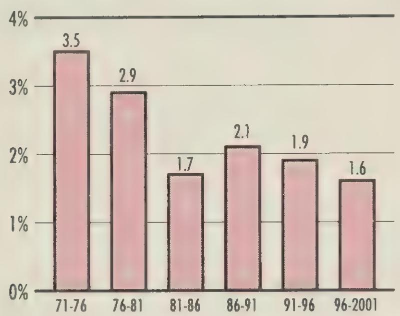
Immigration levels will have a significant impact on housing demand. How closely projections match actual developments will depend in part on the extent to which the housing demand of future immigrants resembles that of the current population. If for example immigrants live in larger than average households, this would, all else being equal, mean fewer households. In the projections described here, it is assumed that there is no difference between housing choices of immigrants and non-immigrants of similar ages.

Because of the rise in immigration and the associated population and household growth, the number of houses required to be built each year will increase. Canada Mortgage and Housing Corporation projects that the average number of new households formed each year will increase to 195,700 for 1991-96 and then drop to 184,100 for 1996-2001, assuming that immigration remains at the 250,000 level. Between 1986-91, the average number of households formed yearly is estimated to be 192,800. Annual housing requirements are slightly higher than this as they include an allowance for units lost due to demolitions, conversions and vacancies. For 1991-96, requirements are estimated at between 205,000 and 210,000 units annually.

Actual housing starts will differ from these projections as they depend not only on the underlying requirements, but on the prevailing economic conditions as well. Housing starts are forecast to be at 171,000 units in 1992 and rise to 194,000 units in 1993. As the economy continues to gain strength, housing starts should be well over 200,000 until the mid 1990's.

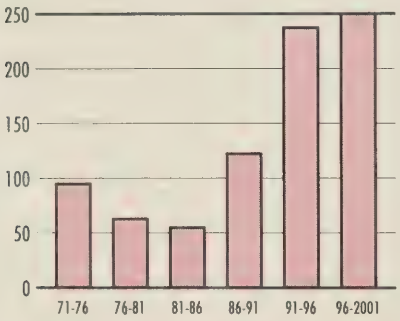
The second important factor affecting housing requirements is the aging of the population. The arrival of the first baby boomers in a given age group boosts household formation in that age group, and the departure of the last of them leads to negative household growth. Accordingly, the peak household forming group will shift from the 35-44 group in the 1980's to the 45-54 group in the 1990's (Figure 3), and to the 55-64 group in the first decade of the next century. This will mean greater demand from the second and third time buyer over the coming years. This does not necessarily mean greater demand for larger homes. Many of these baby boomers will become empty nesters as their children leave home, particularly in the latter part of 90's and after the year 2000. They will be looking for homes that meet the needs of this stage of

Figure 1 Household Growth Rate



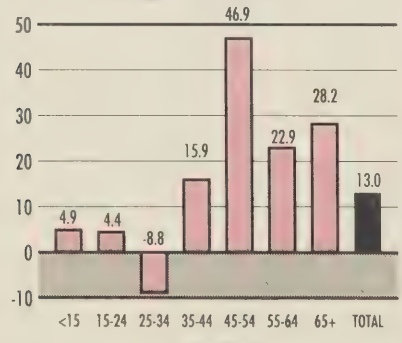
Source: Statistics Canada and CMHC projections — CMHC – MAC 1992

Figure 2 Net International Migration (000s)



Source: Statistics Canada, CMHC — CMHC – MAC 1992

Figure 3 Population Growth (% change) 1991 - 2001



Source: CMHC — CMHC – MAC 1992

ıeir life, which could be smaller, closer to :tivities and with more amenities.

As the baby boom generation gives way ı the baby bust generation, there will be eclines in the 25-34 age group in the 990's and the 35-44 age group between)01-2011. This will mean reduced emand for starter homes. This lower emand will not show up for at least nother year or two as improved ffordability is currently allowing many enters previously locked out of housing wnership to buy their first home. In ome markets, such as Toronto and 'ancouver, the amount of this pent-up emand is large.

Growth will also occur in the seniors age roups, which will mean increased emand for apartments, both condoninium and rental. Younger seniors have reater affluence today, are fairly mobile nd will be looking for housing tailored to heir needs. Growth will also occur in the ver 75 age group, requiring more units vith care facilities.

The swing to non-family household is xpected to continue, but not as markedly, s in the past. Non-family households nade up 26.7 per cent of total households n 1991, compared to 18.3 per cent in 1971. 3y 2001, they should rise slightly to 27.9 ɔer cent. While family households will lecline as a fraction of all households, the share of household growth accounted for ɔy childless couples will actually increase, nearly doubling between 1986 and 2011. Many of these will be older couples whose :hildren have moved out ("empty nesters"). In contrast, the proportion of nousehold growth coming from couples with children will drop dramatically as the population ages. Aging will also eventually reduce the lone parent share of total household growth (Figure 4).

Up to 1996, an increasing part of demand will come from owner households. After 2001, following a leveling off in the ownership share of demand, the trend will reverse, with an increasing proportion of demand coming from renters (Figure 5). The pattern reflects a projected build up after 1996 of non-family household formation relative to family household formation, non-family households being more likely to rent than family households. It also follows from the aging of the population, since the proportion of owners rises with the age of the household head, strongly in younger age groups and then more gradually, before dropping off in the over 65 age group.

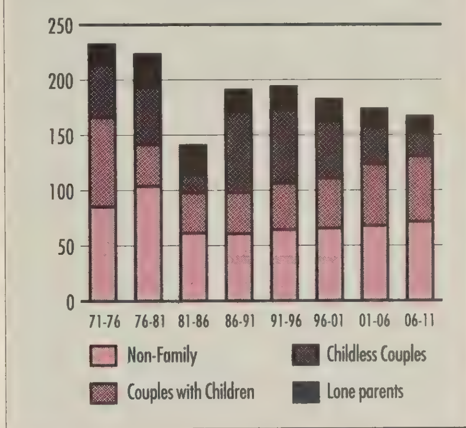
Tenure and housing types are strongly correlated. The majority of ownership units are single-detached, and the majority of rental units are apartments. Thus demand by dwelling type generally mimics the results for owner and renter households. Single-detached houses increase as a proportion of demand, up until 1996, level off between 1996 and 2001, and drop thereafter. Apartments experience the reverse pattern.

The impact of the demographic changes, particularly immigration, on the various regions will differ. Immigrants tend to concentrate in specific areas. Over 90 per cent of immigrants to Canada go to Ontario, Quebec, B.C. and Alberta. Within these provinces, the impact of immigration is also uneven, since immigrants tend to focus on the major cities, in particular, Montreal, Toronto and Vancouver.

Over the next two decades, Ontario, Alberta and B.C. will increase their shares of the population. Growth in these provinces will be higher than for Canada as a whole because they attract a higher proportion of immigrants than their share of the population. By contrast growth in Quebec will fall short of the national average, with the result that Quebec's share of the population will decline. The drop continues an established trend. Below average fertility rates, continued outflows of people from Quebec to other provinces and a disproportionately low share of total immigration in comparison to its share of population will contribute to this projected decline. With the exception of the territories, population growth in the remaining provinces will be below average.

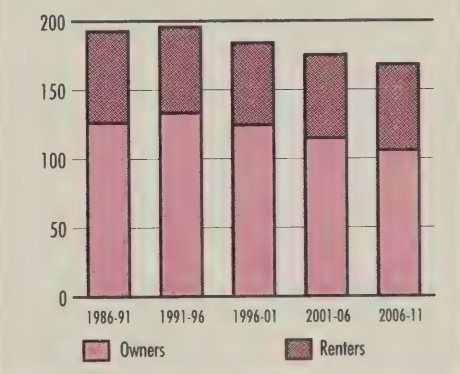
This article summarizes the detailed projections in Potential Housing Demand Projections: Canada and the Provinces 1986-2011, by Roger D. Lewis, Research Division, CMHC. The report can be obtained from CMHC by calling (613) 748-2367.

Figure 4 Average Annual Increase in Households by type of Household (000s)



Source: Statistics Canada and CMHC projections CMHC – MAC 1992

Figure 5 Average Annual demand by Tenure



Source: CMHC projections CMHC – MAC 1992

INDICATORS OF MORTGAGE LENDING ACTIVITY

Mortgage Credit Outstanding[1] (in millions of dollars)

		1990	1991	1992[2]	91Q3	91Q4	92Q1	92Q2
TOTAL		226,931	245,560	258,047	248,291	253,891	258,047	263,208
	% change	13.3	8.2	8.6	2.4	2.3	1.6	2.0
Banks		96,503	107,676	–	109,474	112,402	115,425	–
Trust Co.		69,641	70,774	–	70,806	70,907	70,108	–
Caisses & CO-OP		30,145	33,261	–	33,780	35,053	36,223	–
Life Ins. Co.		15,889	17,791	–	18,072	18,545	18,782	–
Pension Funds		8,321	8,753	–	8,803	8,905	9,015	–
Fin. & Loan		6,433	7,305	–	7,355	8,079	8,494	–

(1) Seasonally Adjusted Data (2) Cumulative

Source: Bank of Canada *CMHC – MAC 1992*

NHA and Conventional Loans Approved[1]

		1990	1991	1992[2]	91Q2	91Q3	91Q4	92Q1
TOTAL	$000	55,449	69,345	18,784	21,424	18,636	16,124	18,784
	Units	741,217	947,979	243,106	293,737	261,418	215,861	243,106
NHA	$000	10,193	15,430	6,115	4,385	3,787	4,180	6,115
	Units	137,143	184,112	66,779	53,509	45,045	47,777	66,779
Conventional	$000	45,256	53,915	12,669	17,039	14,849	11,944	12,669
	Units	604,212	763,867	176,327	240,228	216,373	168,084	176,327
By Type of Lender								
Banks	$000	29,337	38,232	11,030	11,839	10,837	9,148	11,030
	Units	374,687	474,066	131,548	147,572	135,041	110,369	131,548
Trust Co.	$000	17,052	15,283	4,027	4,593	3,860	3,483	4,027
	Units	229,556	230,015	55,548	66,909	66,124	49,792	55,548
Life Ins. Co.	$000	3,190	4,697	1,784	1,389	1,138	1,129	1,784
	Units	65,335	86,768	31,652	27,143	20,231	18,851	31,652
Others	$000	5,870	11,133	1,943	3,603	2,801	2,364	1,943
	Units	71,777	157,130	24,358	52,113	40,022	36,849	24,358

(1) Not Seasonally Adjusted at Annual Rate (2) Cumulative

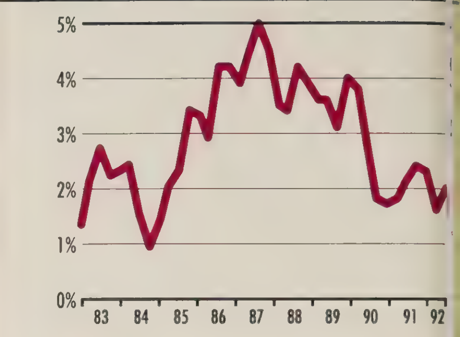
Source: CMHC *CMHC – MAC 1992*

Mortgage Rates[1] (Average of period)

	1990	1991	1992	91Q3	91Q4	92Q1	92Q2
1-Year Mortgage Rate	13.40	10.08	8.42	9.92	8.92	8.67	8.17
3-Year Mortgage Rate	13.38	10.90	9.50	10.92	9.92	9.58	9.42
5-Year Mortgage Rate	13.35	11.13	9.97	11.42	10.18	10.00	9.93

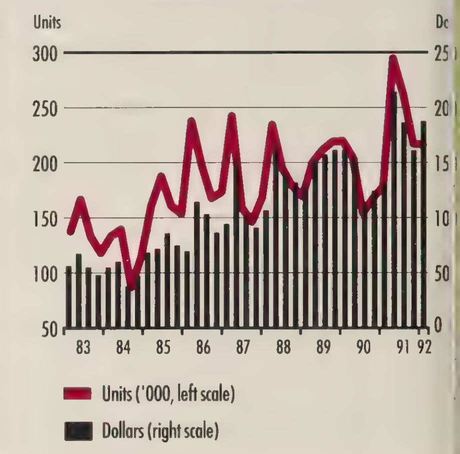
Source: CMHC *CMHC – MAC 1992*

Residential Mortgage Credit Growth *(in per cent)*



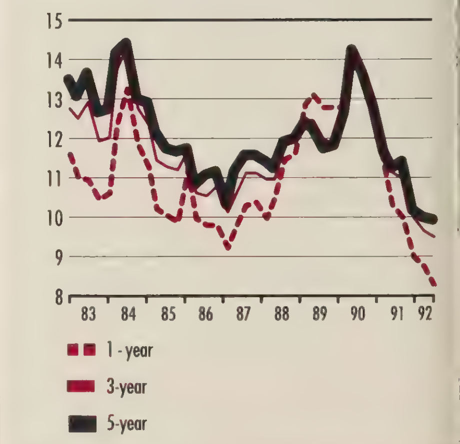
Source: Bank of Canada; CMHC *CMHC – MAC 19*

NHA and Conventional Approvals



Source: CMHC *CMHC – MAC 19*

Mortgage Rates *(in per cent)*



Source: Bank of Canada *CMHC – MAC 19*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Marc Pellerin, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 495-2003.

Mortgage Market Trends is a quarterly publication. Enquiries regarding subscription should be directed to:
Canada Communication Group-Publishing, Ottawa, Canada K1A 0S9. Tel.: (819) 956-4802; Fax: (819) 994-1498.

Cette publication est aussi disponible en français sous le titre SCHL Tendances du marché hypothécaire – LNH 6109 3T/92

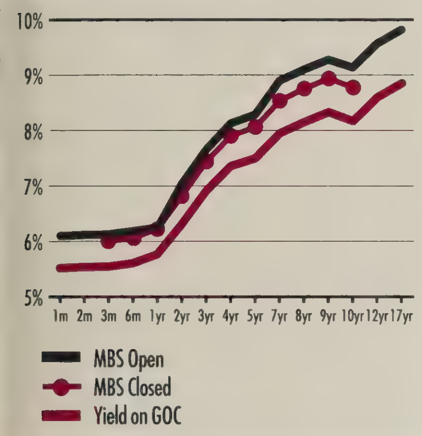
ISSN 1188-4215
Catalogue No. NH12-8-1992-3E Regular subscription (4 Issues) $44.00 plus applicable taxes.
Printed in Canada
Produced by the Public Affairs Centre, CMHC

NHA MORTGAGE-BACKED SECURITIES

NHA MORTGAGE-BACKED SECURITY ISSUES REACHED NEW RECORDS DURING THE SECOND QUARTER OF 1992

The Canadian Secondary Mortgage Market expanded at a record pace during the second quarter of 1992. Issues of NHA Mortgage-Backed Securities (MBS) totalled $1,214.2 million through 79 new pools. With the downward trend in interest rates, 10-year mortgages have become more attractive. The 10-year and over term represented 4.5 per cent of the second quarter issues, up from 2.2 per cent during the preceding quarter.

NHA Mortgage-Backed Securities Yield Analysis – *June 30, 1992**



* Bid Side

Source: Burns Fry Limited *CMHC – MAC 1992*

NHA Mortgage-Backed Securities Yield Analysis – *Market Closing, July 21, 1992**

GOC description				
Coupon Rate	Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
7.00%	09/94	Open	56	6.21%
8.25%	11/95	Open	65	6.81%
9.25%	10/96	Open	71	7.44%
9.25%	10/96	Closed	53	7.26%
8.25%	03/97	Open	76	7.58%
8.25%	03/97	Closed	58	7.40%
8.50%	04/02	Open	88	8.65%

* Bid Side

Source: Telerate; average for MBS traders *CMHC – MAC 1992*

The second quarter performance follows a strong first quarter when 63 pools of NHA MBS were issued totalling $910.7 million. At $9,114.0 million, the outstanding amount of NHA MBS represented roughly 3 per cent of the total residential mortgage loan portfolio in Canada at the end of the second quarter.

Three factors accounted for the strong activity of the secondary market observed recently. First, lenders issued more MBS in order to get money for lending purposes as they had difficulty attracting money in low yield deposits. NHA MBS are becoming more and more popular for fund matching purposes.

Second, better housing activity helped by lower interest rates boosted NHA MBS volumes. Housing starts rose 7.8 per cent to 165,000 units in the second quarter. Existing unit sales are estimated to be up by about 5 per cent during the same period. Five-year mortgage rates were at 9.63 per cent at the end of June after having increased to 10.75 per cent in March.

Third, NHA MBS continued to be a relatively inexpensive source of funds for lenders as the spread between five-year mortgage rates and five-year Government of Canada Bonds (GOCs) increased by 12 basis points to 195 basis points during the second quarter. A rising spread between five-year mortgage rates and five-year GOCs tends to boost lenders' profitability since MBS yields move more or less in tandem with GOC yields.

Yield differentials on NHA MBS and GOCs for the five-year maturity remained fairly stable during the second quarter compared to the first. The rate differential between five-year MBS with non-prepayable options (Closed MBS) and five-year GOCs was about 60 basis points over the last three months. Similarly, the yield on NHA MBS with prepayable options (Open MBS) stood roughly 80 basis points above the yield on GOCs for the five-year maturity.

NHA MBS with five-year maturities accounted for 85.7 per cent of all NHA MBS issues over the last three months compared to 95.0 per cent during the first quarter. Lenders issue more and more NHA MBS with 10-year and over maturities. Ten-year and over NHA MBS represented 4.5 per cent of all issues during the second quarter, up from 2.2 per cent observed in the preceding period. Mortgage loans with terms longer than five years have become somewhat more popular recently because inflation and interest rates are at levels not seen since the beginning of the seventies.

Residential pools for single units accounted for 69 per cent of all NHA MBS issues during the second quarter up from 52 per cent during the preceding period. NHA MBS containing social housing pools represented 28 per cent of all issues over the last quarter, down from 44 per cent in the first quarter. Pools for multiple units and pools containing a mix of residential (single and multiple) and social housing loans accounted for the rest.

FORECASTING THE PREPAYMENT RATE: THE U.S. EXPERIENCE[1]

Measuring prepayments is of central importance in evaluating Mortgage-Backed Security (MBS) prices. Extensive U.S. literature deals with the modelling of the prepayment behavior. Research shows that interest rates are the main factor explaining prepayments. Factors like the age of mortgages in pools as well as seasonality are also significant, feeding the prepayment process. Empirical research on prepayments is in the very early stages in Canada as the NHA MBS product has only been in existence since 1987.

Prepayments are a crucial element in the pricing of MBS. In the U.S., a significant part of MBS monthly cash flow is related to prepayments since mortgagors have the right to prepay their mortgages, often without penalty, at any time prior to maturity. A good forecast of prepayments thus reduces the cash flow uncertainty, which contributes to improved pricing of MBS.

THE MEASUREMENT OF PREPAYMENTS

The Conditional Prepayment Rate (CPR) is the method most commonly accepted and used by traders and investors to quantify prepayment activity. Simply stated, it quantifies prepayments as the proportion of principal outstanding at the beginning of the period. Also, the CPR indicates the percentage of prepayment conditional on the principal balance at the beginning of the period. An unconditional rate would be computed using the original balance. The CPR could be calculated for one particular MBS pool or for a group of MBS pools. The CPR is also referred to as the Constant Prepayment Rate by some analysts.

FACTORS INFLUENCING PREPAYMENTS

Prepayments can occur for a number of reasons. These include refinancing, the sale of the home, the age of mortgage pools (seasoning), seasonal factors and, finally, the general course of the economy.

Costs of refinancing

Refinancing to capture interest-saving opportunities is an important cause of prepayments especially for mortgagors having contracted mortgages at high interest rates. Taking into account transaction costs (administration fees, interest penalties,...), it is estimated that refinancing is profitable when the current mortgage rate falls 200-300 basis points below the contract rate.

Home owners can react with a lag to declining interest rates. In the U.S. market, this lag between interest rate changes and prepayments is typically two to four months as individuals become aware of favourable conditions. It is also possible that home owners wait longer before refinancing if they anticipate further declines in interest rates.

But prepayments could be less sensitive to interest declines for pools with very high coupon yields for which home owners may have already taken advantage of the opportunity to refinance. Moreover, the age of mortgages in the pool can modify the way interest rate declines affect prepayments. Home owners with low remaining balances will not have the same incentive to refinance as those with high principal balances whose monthly payments are largely interest.

Refinancing to capture interest-saving opportunities is an important cause of prepayments.

Selling of Property

The second important determinant of the CPR is also known as the turnover rate. Home sales could occur under favorable refinancing conditions. Prepayments will also tend to be higher, everything else being equal, for more mobile households. A recent study highlighted in a paper written by Yuming Fu[2] shows that mobility tends to be positively correlated with family size, permanent income, education level, and change in the family status (wedding, divorce). Job relocations and foreclosures have also a direct impact on the turnover rate. Death and other unexpected circumstances must be taken into account in explaining the turnover rate. As is the case with refinancing, mobility will be lower the higher the amount of equity homeowners have in their house.

Seasoning

The age or seasoning of an MBS pool is also an important factor affecting its prepayment experience. CPRs for new pools are low since individuals who have just contracted a new mortgage are not expected to move soon. Analyzing pools separately, the U.S. experience shows that prepayments on mortgages rise first at an accelerated pace then at a slower pace before reaching a plateau. For mortgage loans carrying an insurance against defaults, the plateau seems to be approximately 7 to 10 years after the issuance of the pool. For conventional mortgage pools, the plateau is reached 4 to 7 years after the date of the issue. Thirty-year terms are the most common maturities on U.S. MBS pools.

Seasonality

Prepayments are expected to generally accelerate during the spring and remain high until the end of the summer or beginning of autumn before dropping to reach lower levels during winter. This pattern is attributable to the weather and sociological factors like the school calendar.

Macroeconomic Factors

Strong economic activity will tend to favor higher prepayments. A better economic performance tends to prompt

ome sales as a result of increases in ersonal income, job relocations and ppreciating real estate values.

MPIRICAL RESULTS

Among the variety of methods for fore- asting prepayments, economic models ave proved to be the most acceptable nes, both theoretically and empirically.

Experience shows that declining mort- age rates in comparison with mortgage ontract rates increase the prepayment ate. The sensitivity of prepayments to nterest rate changes depend upon the pread between the current lending rates nd the contract rates included in the ools. When the spread is very high positive spread), incentives to prepay are elatively low but not zero, accounting for nvoluntary home sales and the ability to ome home buyers to accept high financ- ng costs. In a context of declining interest ates, empirical research has shown that repayments increase substantially when urrent mortgage rates drop 200 to 300 asis points below contract mortgage ates (negative spread). As spreads be- ome extremely negative, prepayments end to level off as a significant proportion f homeowners have already refinanced heir mortgages.

The age (seasoning) of mortgages roved to be important in explaining the repayment behavior as well. Seasonal actors are also significant in prepayment equations.

Demographic variables were not signifi- ant for explaining prepayments. Researchers attribute this to the fact that lemographic factors are already captured y seasoning which is highly correlated with family size, income, employment istory, occupation, and marital status.

The addition of macroeconomic vari- ables also did not seem to impact prepay- nents since their effects on prepayments were already included in the interest rate variables.

As well, the U.S. experience shows that CPRs reaction to explanatory variables could vary by state or region. For example, the theory suggests that nobility, and hence prepayments, will e higher in states with strong economic activity. However, in states like New York and California, where home prices are high, CPRs on MBS are relatively low since a larger proportion of loans pooled in MBS comes from less affluent homeowners who have very high loan-to-value ratios.

THE CANADIAN CASE

The U.S. experience suggests that econo- metric models have contributed to a bet- ter understanding of prepayment behav- ior. Empirical research on prepayments is less voluminous in Canada than in the U.S. This could be explained by the rela- tively short history of the MBS program in Canada (1987) in comparison with the U.S. which has had programs in place since the beginning of the seventies. Furthermore, most of the research on prepayments has thus far been conducted by investment dealers and is not available publicly.

Institutional differences between Canada and the U.S. will have to be taken into account in modelling the prepay- ment process. For instance, most of the residential MBS issues are in 5-year terms in comparison with 30-year terms south of the border. In addition, penalty fees resulting from prepayments and refinanc- ing are generally much higher in Canada than in the U.S. For this reason, prepay- ments could be less sensitive to interest rate changes in Canada than they are in the U.S. as prepayments mainly result from liquidations when the house is sold. Further research is needed to gain more insight on the factors contributing to pre- payments in Canada.

1 This article is broadly based on the information content of Chapters 5, 23 and 24 in Frank J. Fabozzi, *The Handbook of Mortgage-Backed Securities, Revised Edition*, Frank J. Fabozzi, Editor, Probus Publishing Company, Chicago, Illinois, 1988.

2 Yuming Fu, *Mortgage Pricing and Prepayment Behavior: A Literature Review*, Canadian Real Es- tate Research Bureau, Working Paper #89-ULE-014, Faculty of Commerce and Business Administration, University of British Columbia, June 1989. See the July 1991 issue of Mortgage Market Trends for a detailed discussion on the literature review.

MBS UPDATE

NHA MORTGAGE-BACKED SECURITIES SURPASS THE $10 BILLION DOLLAR MARK

Issuers have assembled and sold 919 NHA MBS pools for a cumulative value of $10.5 billion to individual and institutional investors. The result has been that forecasted sales have more than doubled the original target established by Canada Mortgage and Housing Corporation (CMHC).

When investors buy NHA MBS, they are in effect buying a portion of a pool of securitized mortgages. Mortgagors' principal and interest payments flow through to investors at the coupon rate of the issue as monthly income. Investors receive their payments usually on the first business day after the 14th of the month. The first payment is made 45 days after the issue date of the security, and the final payment is made 15 days after the maturity date. The minimum amount needed to invest in NHA MBS is $5,000.

Investors are fully protected on their NHA MBS investments due to the timely payment guarantee of CMHC. While security is one benefit of NHA MBS, the return is another. Investors frequently buy new issues at discounts of about one per cent below their face value.

In addition, the yield is generally higher than the earnings from GICs and Government of Canada Bonds of comparable terms.

The introduction of NHA MBS has brought several small lenders into the mortgage business, thus increasing the supply of money available for loans as well as the competition. Consumers have been offered lower interest rates and more flexible repayment options.

The largest proportion of NHA MBS buyers are institutional investors, such as pension funds which often buy entire pools worth several millions of dollars each. However, the NHA MBS product is also sold to individuals.

NHA MBS has proven itself to be a valued mortgage product in the Canadian market by more than doubling its forecasted sales target.

NHA Mortgage-Backed Securities Second Quarter Issues – April 1992 to June 1992

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: April 1992						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96404884	LONDON LIFE INSURANCE CO.	4,950,464.57	8.875	March 01, 1997	9.50	24.58
96404918	BANQUE NATIONALE DU CANADA	47,675,268.79	9.000	February 01, 1997	9.59	22.75
96404926	BANQUE NATIONALE DU CANADA	18,808,384.58	9.000	February 01, 1997	9.57	15.92
96404975	FIDUCIE DESJARDINS INC.	8,003,985.91	8.500	March 01, 1997	9.95	23.00
96404983	LONDON LIFE INSURANCE CO.	4,894,042.00	8.875	March 01, 1997	9.51	19.00
96405014	FIRSTLINE TRUST COMPANY	13,166,028.20	8.875	June 01, 1997	9.57	24.17
96405022	FIRSTLINE TRUST COMPANY	21,898,153.28	9.125	June 01, 1997	9.82	24.67
96405030	FIRSTLINE TRUST COMPANY	2,346,155.68	8.375	May 01, 1995	9.21	24.42
96405048	FIRSTLINE TRUST COMPANY	2,341,451.40	8.625	March 01, 1995	9.46	24.67
96405055	ROYAL TRUST COMPANY	75,000,106.38	9.000	March 01, 1997	9.68	23.17
96405063	MANUFACTURERS LIFE INS. CO.	10,000,195.87	9.000	June 01, 1997	9.72	18.08
96405071	FIRSTLINE TRUST COMPANY	3,908,153.25	8.625	June 01, 1997	9.27	24.33
96405089	MANUFACTURERS LIFE INS. CO.	10,000,710.75	9.125	June 01, 2002	9.96	17.67
96405113	MANUFACTURERS LIFE INS. CO.	8,000,726.03	8.875	June 01, 1999	9.79	24.42
96405188	MANUFACTURERS LIFE INS. CO.	3,572,039.37	7.625	April 01, 1994	8.88	22.58
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500103	MANUFACTURERS LIFE INS. CO.	13,063,713.41	9.000	June 01, 1997	9.75	24.25
96500111	MANUFACTURERS LIFE INS. CO.	20,000,340.40	9.125	June 01, 2002	10.10	24.17
SOCIAL HOUSING POOLS						
99003352	BANK OF NOVA SCOTIA	10,756,215.40	8.000	April 01, 1997	8.73	27.50
99003360	CIBC MORTGAGE CORPORATION	14,721,689.25	8.125	April 01, 1997	8.99	25.08
99003386	BANK OF NOVA SCOTIA	10,195,257.73	8.250	March 01, 1997	9.05	34.92
99003402	FIDUCIE DESJARDINS INC.	2,733,694.95	8.375	April 01, 1997	9.10	35.00
99003477	CIBC MORTGAGE CORPORATION	10,201,737.00	8.750	April 01, 1997	9.63	35.00
99003493	MANUFACTURERS LIFE INS. CO.	19,854,560.22	8.625	April 01, 1997	9.70	35.00
MONTH OF ISSUE: May 1992						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96405097	BANQUE NATIONALE DU CANADA	27,976,411.68	9.000	March 01, 1997	9.69	15.92
96405105	BANQUE NATIONALE DU CANADA	58,912,112.10	9.000	March 01, 1997	9.64	22.58
96405121	TORONTO-DOMINION BANK	2,699,390.61	9.375	March 01, 2002	10.65	17.17
96405139	LONDON LIFE INSURANCE CO.	16,455,805.07	8.750	April 01, 1997	9.53	24.50
96405147	LONDON LIFE INSURANCE CO.	5,458,507.47	8.750	April 01, 1997	9.51	18.83
96405154	ROYAL TRUST COMPANY	75,000,554.93	8.625	April 01, 1997	9.43	23.92
96405170	MANUFACTURERS LIFE INS. CO.	30,000,047.44	8.750	July 01, 1997	9.92	24.42
96405212	VANCOUVER CITY SAVINGS C.U.	34,461,935.32	9.000	April 01, 1997	9.80	23.75
96405220	SHOPPERS TRUST COMPANY	5,238,947.55	9.125	April 01, 2002	10.10	24.33
96405238	SHOPPERS TRUST COMPANY	6,104,938.14	8.375	April 01, 1995	9.34	24.17
96405246	SHOPPERS TRUST COMPANY	22,232,003.26	8.625	May 01, 1997	9.55	24.67
96405253	SHOPPERS TRUST COMPANY	14,553,101.87	9.125	May 01, 2002	9.86	24.25
96405261	MANUFACTURERS LIFE INS. CO.	2,054,478.83	8.375	March 01, 1995	9.59	18.25
96405279	MANUFACTURERS LIFE INS. CO.	2,140,818.95	8.375	June 01, 1995	9.40	23.33
96405329	MANUFACTURERS LIFE INS. CO.	23,187,855.21	8.750	July 01, 1997	9.93	24.42
96405378	MANUFACTURERS LIFE INS. CO.	8,000,105.67	9.250	August 01, 2002	10.19	17.75
96405386	MANUFACTURERS LIFE INS. CO.	10,000,649.41	9.250	August 01, 2002	10.28	23.83
SOCIAL HOUSING POOLS						
99003212	MARITIME LIFE ASSURANCE CO.	4,957,296.89	7.500	April 01, 1997	8.76	22.42
99003428	TORONTO-DOMINION BANK	10,653,682.36	8.875	May 01, 1997	9.54	25.33
99003436	CIBC MORTGAGE CORPORATION	8,093,898.88	8.625	May 01, 1997	9.48	25.00
99003444	BANK OF NOVA SCOTIA	51,887,134.74	8.750	May 01, 1997	9.57	33.58
99003451	BANK OF NOVA SCOTIA	4,264,973.76	8.750	May 01, 1997	9.79	24.17
99003469	PEOPLES TRUST COMPANY	4,527,996.03	8.750	May 01, 1997	9.59	24.75
99003485	FIDUCIE DESJARDINS INC.	3,488,637.00	8.750	May 01, 1997	9.38	35.00
99003501	VANCOUVER CITY SAVINGS C.U.	7,245,117.26	8.500	February 01, 1995	10.71	27.67
99003592	CIBC MORTGAGE CORPORATION	34,279,689.00	8.875	May 01, 1997	9.66	35.00
99003618	MANUFACTURERS LIFE INS. CO.	24,019,652.78	8.500	May 01, 1997	9.37	35.00
MONTH OF ISSUE: June 1992						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96405162	PEOPLES TRUST COMPANY	5,006,419.41	8.625	May 01, 1997	9.58	24.08
96405196	BANQUE NATIONALE DU CANADA	25,648,153.58	8.375	April 01, 1997	9.90	15.92
96405204	BANQUE NATIONALE DU CANADA	77,560,542.83	8.375	April 01, 1997	9.75	22.92
96405287	BANQUE NATIONALE DU CANADA	6,251,497.83	8.375	April 01, 1997	9.75	23.33
96405295	TORONTO-DOMINION BANK	4,311,299.31	9.375	June 01, 2002	10.55	22.75
96405337	ROYAL TRUST COMPANY	25,001,202.62	8.875	May 01, 1999	10.05	23.08
96405345	LONDON LIFE INSURANCE CO.	21,837,106.49	8.375	May 01, 1997	9.60	24.75
96405352	LONDON LIFE INSURANCE CO.	11,969,869.24	8.375	May 01, 1997	9.53	19.00
96405360	LONDON LIFE INSURANCE CO.	2,982,684.78	8.375	May 01, 1997	9.53	14.33
96405394	FORTIS TRUST CORPORATION	3,108,761.13	8.375	May 01, 1997	9.94	23.83
96405402	MANUFACTURERS LIFE INS. CO.	14,585,888.68	8.500	August 01, 1997	10.01	18.17
96405410	MANUFACTURERS LIFE INS. CO.	15,609,352.47	8.500	August 01, 1997	10.15	24.67
96405428	MANUFACTURERS LIFE INS. CO.	5,424,319.84	8.875	July 01, 1999	10.19	24.58
96405436	MANUFACTURERS LIFE INS. CO.	5,214,387.02	8.875	July 01, 1999	10.06	17.33
96405493	MANUFACTURERS LIFE INS. CO.	5,031,945.43	9.250	August 01, 2002	10.57	24.58
96405501	MANUFACTURERS LIFE INS. CO.	5,042,038.93	9.250	August 01, 2002	10.54	17.67
96405543	MANUFACTURERS LIFE INS. CO.	3,961,492.07	7.500	August 01, 1995	9.73	23.75
96405568	MANUFACTURERS LIFE INS. CO.	20,051,965.96	8.250	August 01, 1997	9.90	24.58
SOCIAL HOUSING POOLS						
99003519	TORONTO-DOMINION BANK	14,250,865.96	8.500	June 01, 1997	9.35	29.50
99003527	CIBC MORTGAGE CORPORATION	4,707,201.10	6.750	June 01, 1993	7.41	25.00
99003535	CIBC MORTGAGE CORPORATION	9,407,144.48	8.250	June 01, 1997	9.06	25.92
99003543	TORONTO-DOMINION BANK	7,205,359.02	8.875	May 01, 1997	9.53	34.92
99003550	CIBC MORTGAGE CORPORATION	24,123,186.66	8.250	June 01, 1997	9.08	35.00
99003568	BANK OF NOVA SCOTIA	4,261,412.83	8.250	June 01, 1997	9.16	25.67
99003576	BANK OF NOVA SCOTIA	14,082,858.28	8.500	May 01, 1997	9.61	34.83
99003584	FIDUCIE DESJARDINS INC.	7,586,488.00	8.875	June 01, 1997	9.43	35.00
99003600	TORONTO-DOMINION BANK	10,818,742.44	9.125	June 01, 2002	9.74	29.17
99003683	ROYAL BANK OF CANADA	14,786,463.11	7.875	May 01, 1997	8.83	34.25
99003741	FIRSTLINE TRUST COMPANY	10,366,093.00	8.000	June 01, 1997	9.04	35.00

C M H C M O R T G A G E M A R K E T

TRENDS

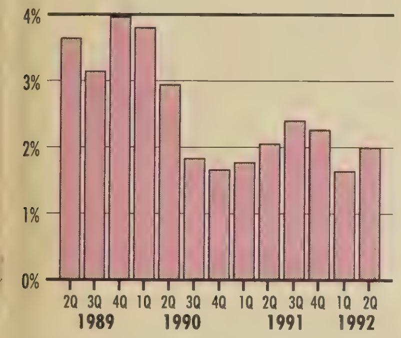
MARKET ANALYSIS CENTRE
OCTOBER 1992

MORTGAGE LENDING

MORTGAGE CREDIT CONTINUES TO POST MODERATE GROWTH

Lender's residential mortgage portfolio expanded by an estimated 1.9 per cent to $269.0 billion during the third quarter of 1992, a similar increase to the 2.0 per cent of the second quarter. Mortgage credit outstanding is expected to post moderate growth along with housing activity for the rest of 1992.

Residential Mortgage Credit Growth*
(from previous quarter)



* Nominal
Source: Bank of Canada
CMHC – MAC 1992

Market Share of Residential Mortgage Credit

	2Q91	1Q92	2Q92
Banks	43.4%	44.6%	44.9%
Trust	29.3%	27.3%	26.6%
Caisses & Co-op	13.4%	14.0%	14.1%
Life	7.3%	7.3%	7.4%
Pension Funds	3.6%	3.5%	3.5%
Fin. & Loan	2.9%	3.5%	3.6%

Source: Bank of Canada
CMHC – MAC 1992

The 1.9 per cent expansion of mortgage credit observed during the third quarter compares to increases of 2.0 and 1.6 per cent recorded during the second and first quarters of this year. With interest rates declining to their lowest levels in 25 years, activity improved toward the end of the quarter on both the new and the existing housing markets. Housing starts increased 6.7 per cent to 176,000 units S.A.A.R. (seasonally adjusted at an annual rate) during the quarter after a 7.8 per cent advance during the preceding period. MLS[1] sales for existing houses posted a 4.6 per cent advance to 330,614 units S.A.A.R. during the second quarter and are estimated to have increased by around 8 per cent during the third quarter.

However, house prices did not improve markedly in either the new or the existing housing market. Average prices for houses sold through the MLS system are expected to be marginally higher in the third quarter following a drop of 4.1 per cent during the second quarter. Data available on the new house price index suggest a 0.7 per cent increase for the third quarter. The index edged up marginally (+0.1 per cent) during the second quarter after having posted a drop during the two preceding periods.

Recent market price behavior reflects a normal pattern at this stage of the business cycle as housing activity is concentrated in the first-time homebuyer market. The cumulative average size of NHA insured mortgage loans stood at $94,907 as of the end of September. Since the introduction of CMHC's First Home Loan insurance Program in February, 31.9 per cent of NHA loans have been approved with a downpayment representing less than 10 per cent of the house price.

The growth of mortgage credit is not forecasted to accelerate for the rest of the year as the advantages of low house prices and low interest rates will be partially offset by sputtering economic activity. The recent spike in mortgage rates observed at the beginning of October, is not expected to be sustained nor put the housing recovery in jeopardy. In spite of very good affordability, mortgage lending activity will not pick up strongly until employment and hence, consumer confidence is re-established.

Mortgage credit by type of financial institution was as follows for the second quarter: banks expanded their market share to 44.9 per cent. Caisses populaires and CO-OPs also increased their market share (14.1 per cent), as well as for life insurance companies (7.4 per cent) and finance companies (3.6 per cent). Trusts' market share continued to decline (26.6 per cent) reflecting the heavy use of the NHA Mortgage-Backed Securities (MBS) Program to securitize mortgage loans. Securitized loans are removed from the books by the lenders. Market shares taking into account the outstanding amount of NHA MBS will be available in the next issues of Mortgage Market Trends.

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

WHAT DO BORROWERS LIKE ~ *The Good, the Bad and the Ugly*

by Alan Silverstein

Topical issues related to mortgage lending were addressed at the conference "Marketing Mortgages to the Canadian Consumer" in Toronto on April 9-10, 1992. One of the topics addressed was the consumer's point of view on mortgage lending practices. Consumers like portability, early renewals and the possibility to make weekly, bi-weekly[1] or semi-monthly[2] payments on mortgages. What the consumers dislike the most is the lack of flexibility in prepaying their mortgages at low cost.

To paraphrase the Americans, "Not all mortgages are created equal". Every lender offers different mortgage features. Some options borrowers find appealing —others they find appalling.

Obviously lenders hoping to enhance their share of the mortgage market need a finger on the pulse of the Canadian borrower. So here's a quasi-focus group study — culled from 15 years representing borrowers in mortgage transactions.

The Good

Many recent innovations in mortgage financing benefit borrowers. These "good" features include:

Convertible mortgages ~ allows borrowers to "lock-in" to a longer term mortgage before maturity;

Portability ~ allows borrowers to transfer a mortgage to a new home. One serious drawback: few lenders include it in the mortgage document; usually it's just a policy in a brochure;

Early renewal ~ permits the renewal of mortgages during the last year of the term at the borrower's initiative;

Weekly, bi-weekly or semi-monthly payment mortgages ~ permits the borrower to pay a larger part of the principal thus reducing the interest paid over the life of the mortgage.

Yet despite what many people think, just because a mortgage is paid weekly or bi-weekly does not automatically result in significant savings for borrowers. To accomplish that, the regular monthly payment must be divided by four for a weekly payment mortgage or by two for a bi-weekly loan. So if the monthly payment was $400, $100 would have to be paid weekly or $200 bi-weekly. Why? Since there are 12 months in a year but 13 four-week periods, this type of weekly payment ensures that one extra payment is prepaid to the lender each year. (By paying $100 weekly for 52 weeks, $5,200 is paid at the end of the year; compare that to the $4,800 paid annually when $400 per month is paid 12 times a year; the difference of $400 represents the prepayment of one extra monthly payment that year). The normal 25-year amortization will be reduced by more than 5 years, while its interest cost will fall by almost 25 per cent. But some lenders mutilate the idea by dividing the annual payment by 52. Here the annual payment would be $4,800 divided by 52 or $92.31 weekly, the bi-weekly payment being $184.62. The savings: about 3 months off the amortization and just over 1 per cent of the total interest cost. Some lenders do even less for borrowers, by simply amortizing the weekly/bi-weekly payment over 25 years. Technically these alternatives are still weekly and bi-weekly payment mortgages, but they do little more for borrowers than shuffle the deck.

The Bad

What options do borrowers find "bad"?

Property tax accounts ~ Convenient, but costly. Borrowers dislike getting little or no interest on money on deposit. And they hate having to prepay up to 6 months taxes into an account.

Lenders deducting interest to the interest adjustment date (the IAD) from the mortgage advance. ~ The IAD is the day the mortgage effectively begins to run, usually the first of the month after the loan is booked. Some lenders ignore the concept of an IAD, collecting their payments any day of the month — the best arrangement for borrowers. Others collect the interest to the IAD on the IAD itself — a very fair approach. But too many lenders deduct the interest to the IAD from the mortgage advance, wrecking havoc with a borrowers cash flow on closing.

Due-on-sale clauses ~ Often called "non-transferable" clauses, they restrict purchasers from automatically assuming an existing mortgage when a property is sold by making the loan due and payable at the lender's option. It's not the clause itself that borrowers find unacceptable; Instead it's the ongoing liability of the original borrower (in most parts of Canada) when a mortgage with a due-on-sale clause is assumed after the purchaser has been approved to assume it. When purchasers arrange their own financing, that ends the obligations of the original borrower. If a purchaser wants to assume an existing loan with a due-on-sale clause, the lender again must approve the buyer for the loan. But the original borrower here remains liable on the covenant. Will lenders voluntarily release original borrowers? Not likely — why give up an extra covenant? Legislative change may be needed to rectify this problem.

Interest rate calculation and disclosure ~ Nothing — not a Bank Act Statement of Disclosure, not an amortization schedule, and certainly not the mortgage — discloses the true cost of borrowing. Why? Because of the antiquated concept of calculating mortgage interest half-yearly and not in advance. As the federal Interest Act which sets these rules has remained virtually untouched for about 100 years, the time may have come to modernize it.

Canada needs the English approach to truth-in-lending adopted in 1974. Lenders there must disclose the "effective annual

1. Bi-weekly payments ~ payment every two weeks based on 13 four-week periods (26 payments)

2. Semi-monthly payments ~ payment every two weeks based on 12 months (24 payments)

interest rate", the true rate being borne by the borrower and earned by the lender at the end of the year, ignoring how often the loan is paid or the rate calculated. It would avoid the bewilderment (and windfall) of an 8 per cent loan earning 8.16 per cent when calculated half-yearly, and 8.30 per cent if calculated monthly. Without such disclosure, which goes far beyond that in the U.S., the true cost of borrowing is being concealed from borrowers.

The Ugly

And what do borrowers find downright "ugly" in the area of mortgage financing? The absolute power many lenders have when borrowers want to prepay or refinance their mortgages.

Closed mortgages and prepayment penalties ~ Most mortgages are closed for some period of time. Canadian law gives lenders the final say on whether the loan can be prepaid and if so on what terms. It means lenders can exact any penalty they want — assuming they allow the prepayment in the first place. Hardly a level playing field.

Furthermore, borrowers find the myriad of prepayment privileges confusing and frustrating. In some mortgages the penalty is three months interest but only after a closed period. Others list the penalty as the greater of three months interest and the Interest Rate Differential or IRD (sometimes following a closed period). As many lenders only offer a 10 per cent or 15 per cent prepayment privilege in their mortgages, the rest of the loan is closed. And while they often accept the greater of three months interest and the IRD as the prepayment penalty, they are not so limited (assuming the lender will allow the loan to be repaid early).

Penalties based on the IRD have been severely criticized recently. When rates were high but stable, the IRD clearly was the cheaper penalty. A three months interest penalty appeared arbitrary and meaningless, not reflecting the true cost of the loan being prepaid. But as interest rates plummeted in 1992 the reverse became true — three months penalty became cheaper for many borrowers.

Now here's something controversial to ponder — should borrowers have the absolute right to prepay their mortgages at any time they want? Despite anticipated lender reluctance, the answer can and should be YES, provided the lender is fully compensated for the actual loss incurred as a result of the prepayment.

What penalty accomplished this? The IRD or a penalty of three months interest? Only a prepayment penalty based on the IRD fairly compensate lenders for their losses by taking into account three different factors — the difference in the interest rates (contractual vs. current), the outstanding principal, and the balance of the mortgage term.

This is not a new proposal. Draft legislation in the House of Commons that would have made all mortgages fully open at the borrowers option died on the order paper in 1984. And the 1987 Ontario Law Reform Commission study on mortgages endorsed the same idea.

When examining prepayment privileges, it is usually assumed that rates have fallen since the mortgage was booked. But what if rates rise? Borrowers then should receive an IRD rebate so that less would be paid than the balance actually owing. One major lender has acknowledged this in part, agreeing to waive any penalty if rates rise by two percentage points or more.

The current state of the law on prepayment penalties is in dire need of change. Canadian borrowers want an equality of bargaining power when prepaying their mortgages. Legislative change may be the only answer. Until then too many borrowers will be at the whim and discretion of lenders — whether a mortgage can be prepaid, when, and at what cost.

ALAN SILVERSTEIN is a Toronto lawyer specializing in real estate and mortgage financing. He has written four books on these topics, the most recent being *The Perfect Mortgage* published by Stoddart. This article is based on Mr. Silverstein's presentation at the conference *Marketing Mortgages To The Canadian Consumer*, sponsored by the Institute for International Research in Toronto on April 9-10, 1992.

The views and opinions expressed or implied in this article are those of the author and not Canada Mortgage & Housing Corporation.

MORTGAGE FINANCING

THE RETURN OF 25-YEAR FIXED-RATES ON RESIDENTIAL MORTGAGES

With interest rates declining to levels not seen since the end of 1967, most lenders have recently begun offering fixed mortgage rates for 7, 10 and 12 1/2- year terms. One lender has even introduced a 25-year fixed-rate mortgage; a product that had vitually disappeared during the upward interest rate spirals of the seventies.

The re-introduction of 25-year term mortgages is not only the result of low interest rates but also the success of the NHA Mortgage-Backed Securities (MBS) program which was designed to encourage the availability of funds for longer-term mortgages. Approved NHA MBS issuers do not have to be concerned about attracting money in 25-year term deposits to match their mortgage commitments since they can securitize these 25-year mortgages under the NHA MBS program.

One NHA MBS lender issued two pools in September for more than $ 4.1 million that were comprised exclusively of 25-year fixed rate mortgages. The relative importance of MBS issues for 7 and 10-year terms has also been growing over the past year. Terms of more than 5 years account for 14.6 per cent of all issues since the beginning of 1992 in comparison with 5.5 per cent in 1991.

Most lenders do not currently offer 25-year mortgages due to a lack of demand as long-term mortgage rates are still high in comparison with short-term rates. Furthermore, long-term deposits are difficult to attract, which also constrains the supply of long-term mortgages since a significant part of mortgage lending activity is under a matched funding system.

Part of the premium for long-term mortgage rates will likely be cut if the Bank of Canada is successful in keeping inflation low for a sustained period of time. This could pave the way for higher demand for long-term mortgages and also for more MBS issues with long-term maturities.

INDICATORS OF MORTGAGE LENDING ACTIVITY

Mortgage Credit Outstanding[1] (in millions of dollars)

	1990	1991	1992[2]	91Q4	92Q1	92Q2	92Q3
TOTAL	226,904	245,520	263,824	254,042	253,679	263,889	268,903
% change	13.3	8.2	–	2.3	1.8	2.0	1.9
Banks	96,503	107,676	–	112,402	115,425	118,906	–
Trust Co.	69,641	70,774	–	70,907	70,411	69,979	–
Caisses & CO-OP	30,145	33,261	–	35,053	36,367	37,131	–
Life Ins. Co.	15,889	17,813	–	18,633	18,857	19,322	–
Pension Funds	8,293	8,692	–	8,969	9,083	9,160	–
Fin. & Loan	6,433	7,305	–	8,079	8,536	9,390	–

(1) Seasonally Adjusted Data (2) Cumulative

Source: Bank of Canada CMHC – MAC 1992

Residential Mortgage Credit Growth
(in per cent)

Source: Bank of Canada; CMHC CMHC – MAC 199

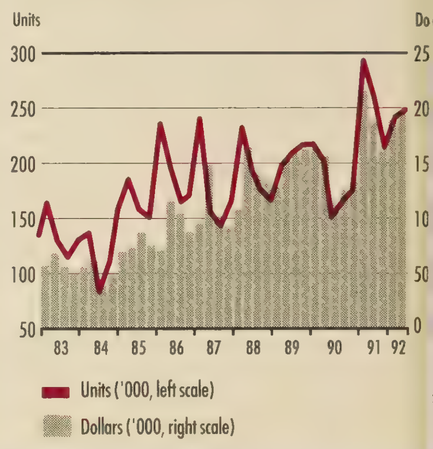
NHA and Conventional Loans Approved[1]

		1990	1991	1992[2]	91Q3	91Q4	92Q1	92Q2
TOTAL	$000	55,449	69,345	18,784	18,636	16,124	18,784	19,539
	Units	741,217	947,979	243,106	261,418	215,861	243,106	249,468
NHA	$000	10,193	15,430	6,115	3,787	4,180	6,115	6,021
	Units	137,143	184,112	66,779	45,045	47,777	66,779	66,896
Conventional	$000	45,256	53,915	12,669	14,849	11,944	12,669	13,518
	Units	604,212	763,867	176,327	216,373	168,084	176,327	182,572
By Type of Lender								
Banks	$000	29,337	38,232	11,030	10,837	9,148	11,030	12,663
	Units	374,687	474,066	131,548	135,041	110,369	131,548	151,667
Trust Co.	$000	17,052	15,283	4,027	3,860	3,483	4,027	3,518
	Units	229,556	230,015	55,548	66,124	49,792	55,548	49,779
Life Ins. Co.	$000	3,190	4,697	1,784	1,138	1,129	1,784	1,137
	Units	65,335	86,768	31,652	20,231	18,851	31,652	17,704
Others	$000	5,870	11,133	1,943	2,801	2,364	1,943	2,221
	Units	71,777	157,130	24,358	40,022	36,849	24,358	30,318

(1) Not Seasonally Adjusted at Annual Rate (2) Cumulative

Source: CMHC CMHC – MAC 1992

NHA and Conventional Approvals



Source: CMHC CMHC – MAC 19

Mortgage Rates[1] (Average of period)

	1990	1991	1992[1]	91Q3	91Q4	92Q1	92Q2	92Q3
1-Year Mortgage Rate	13.40	10.08	7.78	9.92	8.92	8.67	8.17	6.50
3-Year Mortgage Rate	13.38	10.90	9.00	10.92	9.92	9.58	9.42	8.00
5-Year Mortgage Rate	13.35	11.13	9.55	11.42	10.18	10.00	9.93	8.71

(1) Cumulative

Source: CMHC CMHC – MAC 1992

Mortgage Rates *(in per cent)*

Source: Bank of Canada CMHC – MAC 1

N O T E

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Marc Pellerin, Capital Markets Economist, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7,
Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 495-2003.

Mortgage Market Trends is a quarterly publication. Enquiries regarding subscription should be directed to:
Canada Communication Group-Publishing, Ottawa, Canada K1A 0S9. Tel.: (819) 956-4802; Fax: (819) 994-1498.

Cette publication est aussi disponible en français sous le titre SCHL Tendances du marché hypothécaire – LNH 6109 4T/92

ISSN 1188-4215
Catalogue No. NH12-8-1992-4E Regular subscription (4 Issues) $44.00 plus applicable taxes, orders outside Canada add 30%.
Printed in Canada

NHA Mortgage-Backed Securities Third Quarter Issues
July 1992 to September 1992

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: July 1992						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96405303	TORONTO-DOMINION BANK	5,243,718.34	9.250	May 01, 2002	10.53	17.00
96405311	TORONTO-DOMINION BANK	3,838,580.21	9.250	May 01, 2002	10.40	23.08
96405444	BANQUE NATIONALE DU CANADA	93,141,103.73	7.875	May 01, 1997	9.87	23.17
96405451	BANQUE NATIONALE DU CANADA	25,316,497.96	7.875	May 01, 1997	10.04	15.92
96405469	BANQUE NATIONALE DU CANADA	17,733,006.81	7.375	May 01, 1997	9.84	12.58
96405477	LONDON LIFE INSURANCE CO.	22,002,861.37	8.250	July 01, 1997	9.62	18.92
96405485	LONDON LIFE INSURANCE CO.	19,990,563.08	8.250	July 01, 1997	9.61	24.75
96405550	SURREY METRO SAVINGS C.U.	16,436,130.67	7.750	April 01, 1997	9.78	23.83
96405592	VANCOUVER CITY SAVINGS C.U.	84,680,581.59	7.750	June 01, 1997	9.81	23.83
96405618	LONDON LIFE INSURANCE CO.	2,273,383.54	8.125	June 01, 1999	10.01	24.83
96405642	CANADA TRUST COMPANY	99,980,493.09	7.750	July 01, 1997	9.76	23.58
96405659	LONDON LIFE INSURANCE CO.	3,996,635.12	7.000	July 01, 1995	9.38	23.75
96405691	FAMILY TRUST CORPORATION	6,876,588.43	7.750	June 01, 1997	9.70	24.08
96405717	LONDON LIFE INSURANCE CO.	8,997,184.36	7.875	July 01, 1997	9.70	18.83
96405733	MANUFACTURERS LIFE INS. CO.	9,130,243.44	7.875	August 01, 1997	9.82	18.00
96405741	MANUFACTURERS LIFE INS. CO.	11,072,118.20	7.875	September 01, 1997	9.84	24.33
96405758	MANUFACTURERS LIFE INS. CO.	6,119,569.63	8.875	August 01, 2002	10.47	17.58
96405766	LONDON LIFE INSURANCE CO.	6,999,961.68	7.750	July 01, 1997	9.76	24.83
96405774	MANUFACTURERS LIFE INS. CO.	4,023,858.00	9.000	December 01, 2004	10.50	24.42
96405857	MANUFACTURERS LIFE INS. CO.	8,154,954.63	8.375	September 01, 2002	10.37	17.92
96405865	MANUFACTURERS LIFE INS. CO.	2,463,098.50	6.625	September 01, 1995	9.19	24.33
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500129	MANUFACTURERS LIFE INS. CO.	6,730,514.26	7.875	July 01, 1997	9.54	23.92
96500137	MANUFACTURERS LIFE INS. CO.	5,575,088.95	8.375	September 01, 2002	10.63	24.50
SOCIAL HOUSING POOLS						
99003220	MARITIME LIFE ASSURANCE CO.	9,002,732.61	7.750	May 01, 1997	9.16	30.75
99003634	TORONTO-DOMINION BANK	18,886,530.57	8.375	July 01, 1997	8.92	28.92
99003642	TORONTO-DOMINION BANK	6,775,351.16	8.250	July 01, 1997	8.88	25.00
99003659	CIBC MORTGAGE CORPORATION	2,999,836.07	8.000	September 01, 1997	8.91	25.00
99003667	CIBC MORTGAGE CORPORATION	28,609,245.64	8.250	July 01, 1997	9.05	26.83
99003691	BANK OF NOVA SCOTIA	2,128,676.93	7.875	July 01, 1997	9.18	23.00
99003709	FIDUCIE DESJARDINS INC.	2,271,892.00	8.250	July 01, 1997	8.86	35.00
99003717	BANK OF NOVA SCOTIA	22,214,166.87	7.875	July 01, 1997	8.98	34.00
99003725	TORONTO-DOMINION BANK	23,580,022.21	8.750	July 01, 2002	9.31	29.83
99003733	PEOPLES TRUST COMPANY	2,347,898.52	8.250	May 01, 1997	9.45	32.33
99003808	CIBC MORTGAGE CORPORATION	26,287,155.00	7.875	July 01, 1997	8.66	35.00
99003816	ROYAL BANK OF CANADA	17,697,819.28	7.750	July 01, 1997	8.57	34.58
99003873	MANUFACTURERS LIFE INS. CO.	15,656,568.89	7.375	July 01, 1997	8.47	35.00
99003881	MANUFACTURERS LIFE INS. CO.	38,628,400.00	7.125	July 01, 1997	8.57	35.00
MONTH OF ISSUE: August 1992						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96405519	TORONTO-DOMINION BANK	4,583,559.92	8.875	June 01, 2002	10.55	12.75
96405527	TORONTO-DOMINION BANK	2,887,559.02	8.875	June 01, 2002	10.53	17.58
96405535	TORONTO-DOMINION BANK	3,383,110.34	8.875	July 01, 2002	10.66	23.58
96405576	LONDON LIFE INSURANCE CO.	15,000,833.39	8.125	July 01, 1997	9.66	24.67
96405584	LONDON LIFE INSURANCE CO.	10,013,854.84	8.125	August 01, 1997	9.68	18.83
96405626	LONDON LIFE INSURANCE CO.	15,508,229.39	7.750	July 01, 1997	9.59	18.33
96405634	LONDON LIFE INSURANCE CO.	21,462,788.49	7.750	June 01, 1997	9.56	24.33
96405667	BANQUE NATIONALE DU CANADA	82,232,061.87	7.250	June 01, 1997	9.89	23.25
96405675	BANQUE NATIONALE DU CANADA	26,304,632.95	7.250	June 01, 1997	9.83	12.08
96405683	BANQUE NATIONALE DU CANADA	17,634,087.95	7.250	June 01, 1997	9.96	15.75
96405709	LONDON LIFE INSURANCE CO.	6,173,691.33	7.750	June 01, 1997	9.78	24.17
96405725	LONDON LIFE INSURANCE CO.	8,860,684.35	7.750	July 01, 1997	9.66	18.25
96405782	PEOPLES TRUST COMPANY	4,242,867.37	8.625	May 01, 1997	9.64	24.58
96405790	LONDON LIFE INSURANCE CO.	20,006,445.34	7.375	August 01, 1997	9.66	23.92
96405816	LONDON LIFE INSURANCE CO.	3,414,808.92	7.750	August 01, 1999	10.09	18.17
96405824	LONDON LIFE INSURANCE CO.	5,208,094.07	6.500	August 01, 1995	9.23	23.25
96405832	LONDON LIFE INSURANCE CO.	3,603,147.46	8.250	August 01, 2002	10.46	17.83
96405840	LONDON LIFE INSURANCE CO.	4,300,494.64	8.375	August 01, 2002	10.50	23.92
96405873	LONDON LIFE INSURANCE CO.	10,027,193.16	7.500	August 01, 1997	9.63	18.08
96405907	FAMILY TRUST CORPORATION	2,052,903.40	7.375	August 01, 1997	9.53	18.75
96405949	FIRSTLINE TRUST COMPANY	2,655,674.19	7.375	September 01, 1997	9.54	24.50

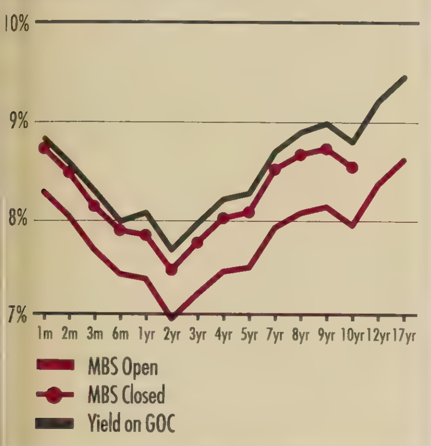
POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: August 1992						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS) *cont'd*						
96406046	MANUFACTURERS LIFE INS. CO.	10,090,949.40	6.875	October 01, 1997	9.06	23.92
96406053	FIRSTLINE TRUST COMPANY	2,220,561.17	6.750	August 01, 1997	9.43	17.92
96406061	MANUFACTURERS LIFE INS. CO.	3,308,477.47	8.000	February 01, 2005	10.65	24.83
96406079	MANUFACTURERS LIFE INS. CO.	2,204,677.59	6.250	October 01, 1995	8.63	23.33
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600069	PEOPLES TRUST COMPANY	56,087,395.00	7.875	August 01, 1997	8.38	30.00
SOCIAL HOUSING POOLS						
99003626	MARITIME LIFE ASSURANCE CO.	10,590,578.00	7.250	July 01, 1997	9.04	25.42
99003675	CIBC MORTGAGE CORPORATION	2,677,551.03	7.375	August 01, 1997	8.22	25.00
99003758	TORONTO-DOMINION BANK	17,677,083.70	7.500	August 01, 1997	8.28	33.25
99003774	FIDUCIE DESJARDINS INC.	9,645,364.51	7.750	August 01, 1997	8.52	26.08
99003782	CIBC MORTGAGE CORPORATION	16,861,935.87	7.375	August 01, 1997	8.25	25.92
99003790	CIBC MORTGAGE CORPORATION	2,260,133.61	5.750	August 01, 1993	6.99	28.00
99003824	FIDUCIE DESJARDINS INC.	4,578,154.00	7.750	August 01, 1997	8.28	35.00
99003840	TORONTO-DOMINION BANK	21,457,541.73	8.000	August 01, 2002	8.68	29.83
99003857	BANK OF NOVA SCOTIA	43,860,177.00	7.125	August 01, 1997	8.43	33.67
99003865	BANK OF NOVA SCOTIA	14,577,350.49	7.125	August 01, 1997	8.21	23.42
99003923	CIBC MORTGAGE CORPORATION	19,012,135.00	6.875	August 01, 1997	7.68	35.00
99003972	FIRSTLINE TRUST COMPANY	2,388,620.00	6.750	August 01, 1997	10.50	35.00
MONTH OF ISSUE: September 1992						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96405600	TORONTO-DOMINION BANK	2,431,525.44	8.750	June 01, 2002	10.60	9.83
96405808	LONDON LIFE INSURANCE CO.	3,200,347.30	6.875	September 01, 1997	9.60	14.33
96405881	LONDON LIFE INSURANCE CO.	4,106,001.54	6.625	September 01, 1996	9.38	24.83
96405899	LONDON LIFE INSURANCE CO.	2,612;398.01	6.125	September 01, 1995	9.02	24.83
96405915	BANQUE NATIONALE DU CANADA	11,316,402.35	6.875	July 01, 1997	9.76	13.08
96405923	BANQUE NATIONALE DU CANADA	22,731,369.00	6.875	July 01, 1997	9.73	15.67
96405931	BANQUE NATIONALE DU CANADA	110,261,941.67	7.000	July 01, 1997	9.76	23.25
96405956	TORONTO-DOMINION BANK	2,363,360.97	7.875	August 01, 2002	10.56	14.42
96405964	TORONTO-DOMINION BANK	3,459,457.82	7.875	August 01, 2002	10.61	18.33
96405972	FAMILY TRUST CORPORATION	5,173,576.30	7.000	June 01, 1997	9.73	23.42
96405980	LONDON LIFE INSURANCE CO.	15,759,483.90	7.000	September 01, 1997	9.18	21.08
96405998	LONDON LIFE INSURANCE CO.	20,783,868.09	7.000	September 01, 1997	9.22	24.92
96406004	ROYAL TRUST COMPANY	50,003,954.25	7.125	August 01, 1997	9.50	23.50
96406012	LONDON LIFE INSURANCE CO.	3,236,394.20	6.625	September 01, 1996	9.45	18.33
96406020	LONDON LIFE INSURANCE CO.	2,412,118.61	6.125	September 01, 1995	9.33	18.67
96406038	LONDON LIFE INSURANCE CO.	2,505,280.27	8.000	September 01, 2002	10.39	23.42
96406087	PACIFIC COAST SAVINGS CREDIT U	3,962,711.90	7.000	September 01, 1997	9.86	23.58
96406095	LONDON LIFE INSURANCE CO.	2,044,793.47	7.625	September 01, 2002	10.31	16.50
96406160	MANUFACTURERS LIFE INS. CO.	7,270,320.48	8.000	October 01, 2002	9.88	23.83
96406178	MANUFACTURERS LIFE INS. CO.	4,989,909.52	8.000	October 01, 2002	9.85	17.67
96406186	MANUFACTURERS LIFE INS. CO.	5,001,312.85	8.000	October 01, 2002	10.40	17.67
96406194	MANUFACTURERS LIFE INS. CO.	2,143,971.31	8.000	October 01, 2002	10.51	24.42
96406202	MANUFACTURERS LIFE INS. CO.	3,204,007.90	7.500	October 01, 1999	9.48	18.50
96406210	MANUFACTURERS LIFE INS. CO.	2,087,342.00	5.625	September 01, 1994	7.68	22.08
96406228	MANUFACTURERS LIFE INS. CO.	2,421,643.48	5.625	September 01, 1994	9.12	23.83
96406236	FIRSTLINE TRUST COMPANY	2,095,415.83	8.375	October 01, 2017	10.16	24.92
96406244	FIRSTLINE TRUST COMPANY	2,017,975.24	8.375	September 01, 2017	10.08	18.50
96406293	HOUSEHOLD TRUST COMPANY	4,754,889.95	7.000	September 01, 1997	9.12	24.92
96406327	MANUFACTURERS LIFE INS. CO.	2,698,819.12	7.500	October 01, 1999	10.09	24.92
96406343	MANUFACTURERS LIFE INS. CO.	5,145,267.99	7.375	October 01, 1999	9.38	24.75
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500145	MANUFACTURERS LIFE INS. CO.	8,994,061.79	7.000	October 01, 1997	9.08	24.08
SOCIAL HOUSING POOLS						
99003766	TORONTO-DOMINION BANK	4,957,150.43	7.500	September 01, 1997	8.37	25.50
99003899	TORONTO-DOMINION BANK	11,885,673.85	7.125	September 01, 1997	7.86	24.75
99003907	FIDUCIE DESJARDINS INC.	12,408,205.00	7.250	September 01, 1997	7.80	30.00
99003915	CIBC MORTGAGE CORPORATION	29,199,260.09	7.000	September 01, 1997	7.83	25.50
99003931	TORONTO-DOMINION BANK	14,413,196.16	7.000	August 01, 1997	7.56	34.92
99003949	TORONTO-DOMINION BANK	37,066,942.72	7.625	September 01, 2002	8.15	30.00
99003956	BANK OF NOVA SCOTIA	25,763,131.46	6.500	September 01, 1997	7.51	34.50
99003964	BANK OF NOVA SCOTIA	9,949,284.06	6.500	September 01, 1997	7.51	28.42
99004004	TORONTO-DOMINION BANK	4,253,378.85	7.500	May 01, 1997	10.48	34.75
99004038	CIBC MORTGAGE CORPORATION	53,862,271.00	6.875	September 01, 1997	7.64	35.00
99004079	FIRSTLINE TRUST COMPANY	11,158,954.00	6.750	September 01, 1997	10.46	35.00
99004087	FIRSTLINE TRUST COMPANY	44,407,615.00	6.625	September 01, 1997	7.54	35.00

NHA MORTGAGE-BACKED SECURITIES

NHA MBS ISSUES SURGED IN THE THIRD QUARTER OF 1992

The Canadian secondary mortgage market expanded at a record pace during the third quarter of 1992. Issues of NHA Mortgage-Backed Securities (MBS) totalled $1,777.4 million through 118 new pools.

NHA Mortgage-Backed Securities Yield Analysis – *September 30, 1992**



Bid Side
ource: Burns Fry Limited CMHC – MAC 1992

NHA Mortgage-Backed Securities Yield Analysis – *Market at 1:30 p.m. October 6, 1992**

GOC description				
oupon ate	Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
7.00%	09/94	Open	56	7.33%
8.25%	11/95	Open	62	7.67%
6.00%	02/96	Open	71	7.62%
6.00%	02/96	Closed	50	7.41%
7.50%	07/97	Open	77	8.07%
7.50%	07/97	Closed	52	7.82%
8.50%	04/02	Open	79	8.63%

Bid Side
urce: Telerate; average for MBS traders CMHC – MAC 1992

Issues have surpassed the $1 billion mark for a second quarter in a row. Seventy-nine NHA MBS issues had totalled $1,214.2 million in the second quarter. MBS issues accounted for 26 per cent of the estimated increase in mortgage credit outstanding during the third quarter. At $10,416.1 million, the outstanding amount of NHA MBS represented 3.8 per cent of the total residential loan portfolio at the end of the third quarter.

Issues of single and multiple residential pools accounted for most of the activity throughout the third quarter, representing 62.7 per cent of all issues in comparison with 36.1 per cent for social housing pools. Pools containing both residential and social housing loans accounted for the rest (0.2 per cent).

At first glance, strong mortgage lending activity boosted by the decline in mortgage rates seems sufficient to explain the high level of MBS issues during the third quarter. Indeed, five-year mortgage rates had dropped to 8.50 per cent in September compared to 9.63 per cent at the end of June. At that level, five-year rates had not been so low since December 1967. At the end of September, one-year rates were at 6.25 per cent, down 125 basis points from their end of June levels. However, preliminary data for the third quarter suggests that mortgage lending business only grew at a moderate pace of 1.9 per cent (see the article on page 1). A closer look at the MBS market reveals that lenders issued numerous small pools to get necessary funds for lending purposes as: (1) they had difficulty attracting funds in low yielding deposits and, (2) declining interest rates favored mortgage refinancing activities. The prepayment rate on MBS represented by the Unscheduled Prepayment Principal (UPP) rate has been rising steadily since the beginning of the year for all pools issued before 1992.

The UPP rate increase is noticeable especially for MBS pools issued in 1990 and 1991 for which average mortgage rates are higher than those on mortgages pooled in MBS issued in 1987, 1988 and 1992. The UPP rate stood at 12.30 per cent in September for 1990 pools and at 12.13 per cent for 1991 pools compared to respective levels of 7.29 and 5.15 per cent observed last January[1]. Even though interest rates surged at the beginning of October, prepayments on 1990 and 1991 pools should stay high for a couple of months if interest rates remain around current levels. Indeed, a number of mortgagors who had taken a five-year mortgage term or longer in 1990 and 1991, are expected to refinance and pay only a three months interest penalty as NHA insured mortgages become open at the third anniversary.

The NHA MBS product was also appealing to lenders as profitability remained good. For instance, the spread between five-year mortgage rates and five-year Government of Canada Bonds (GOCs) stood at 187 basis points on average throughout the third quarter. In general, this spread is viewed as a good indicator for profitability as most MBS issues include five-year mortgage terms. MBS with a five-year term represented 87.4 per cent of issues during the third quarter in comparison with 91.7 and 84.4 per cent for the first and the second quarters respectively.

1. Source: Burns Fry Limited

THE CANADIAN MORTGAGE-BACKED SECURITIES (MBS) PREPAYMENT EXPERIENCE *by Andrew Kriegler and Dean Smith*

1992 marks the fifth anniversary since the introduction of the NHA MBS Program. The past five years have provided a wealth of information about the composition and level of prepayments on Canadian MBS and the factors that affect them. Since prepayment assumptions can radically change the market's perception of an MBS pool's value, this type of information is extremely important for all industry participants, issuers and investors alike. This article summarizes the results of the analysis performed by the Wood Gundy Mortgage-Backed Securities Group, as part of its commitment to the NHA MBS Program.

COMPOSITION OF PREPAYMENTS

Aggregate prepayment data over the last five years shows that approximately 90 per cent of total prepayments have come in the form of liquidations. Partial prepayments made up of a mortgagor utilizing his/her annual prepayment allowance have accounted for only 10 per cent of the total.

This result is significant for MBS valuation because liquidations and partial prepayments have different effects on both the return earned on an MBS, as well as its effective duration. These differences mean that when estimating the prepayment effect on an MBS, investors should differentiate between forecast liquidations, which are measured by a Single Month Mortality rate (SMM), and forecast partial prepayments, which are measured by a Constant Prepayment Rate (CPR).

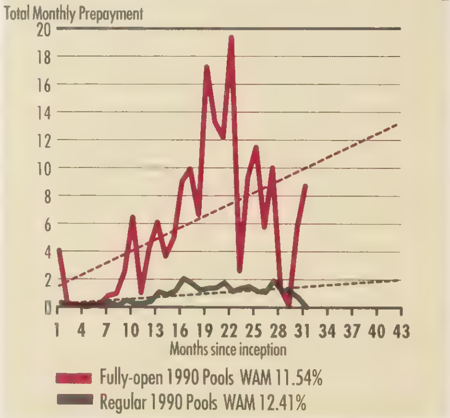
FACTORS AFFECTING PREPAYMENTS

Prepayment Privileges

The level of prepayment privileges allowed to mortgagors are an important factor affecting prepayment levels. To be insured under the NHA, mortgagors must be allowed certain minimum prepayment privileges; allowed to prepay at least 10 per cent of the original mortgage balance per annum without penalty on or after the third anniversary. Mortgagors are allowed to fully prepay the remaining balance subject to a maximum penalty of three months of interest on the prepaid amount. Most issuers offer more generous terms than the statutory minimums. All other things being equal, when mortgagors have fewer restrictions on the amount and timing of their prepayments, they tend to prepay more quickly than otherwise. The extreme case is a "Fully-open" mortgage, which allows the mortgagor to prepay any amount, at any time, without penalty.

Figure 1 compares historical prepayment rates for Fully-open and regular pools issued in 1990 by one active issuer. The Weighted Average Mortgage rate (WAM) for the Fully-open pools is 11.54 per cent, while the WAM for the regular pools is 12.41 per cent. Since both groups of pools were issued in the same year and regular pools have a higher WAM, it would be expected that, if the mortgagors had the same rights to prepay, prepayment rates would be higher for the regular pools. However, since the regular pools restrict refinancing until after the third anniversary, the prepayments experienced for the first three years are low.

Figure 1 One lender's Fully-open Pools vs. Regular Prepayable Pools



Source: Wood Gundy *CMHC – MAC 1992*

This level represents the core prepayment rate that is due to the natural turnover of mortgaged properties. In contrast, the Fully-open pools have prepaid rapidly, beginning only a few months after the pools were issued. The same drop in mortgage rates since 1990 that caused high prepayment rates on the Fully-open pools was visible to mortgagors in the regular pools, but because of the restrictions on prepayment, they were unable to take advantage of it.

This is of course an extreme example of the effects of differences in prepayment terms. However, to the extent that mortgagors act rationally and take full advantage of their prepayment privileges even small changes in prepayment terms such as allowing 20 per cent of the original principal to be prepaid each year versus the minimum 10 per cent, can have an impact on future prepayment levels. Investors should be familiar with the prepayment provisions of pools that are being considered for investment.

WAM/Current Mortgage Rate Differential

At any given point in time, mortgagors in high WAM pools tend to prepay more quickly than low WAM pools, all other things being equal. This is a direct result of the fact that the relative benefit to a mortgagor (to either partially or if possible completely prepay through refinanc- ing) varies with the difference between their fixed mortgage rate and current market rates. The greater the differential the greater the incentive for the mortgag to prepay. Of course, the relatively low partial prepayments that are permitted o most NHA insured mortgages mean tha significant differences in performance w only become apparent when mortgagors are permitted to fully prepay. Once that true, after the third anniversary for most NHA mortgages, it becomes apparent that prepayment rates for relatively high WAM pools are much more closely corre lated to drops in mortgage rates than are prepayments for relatively low WAM pools.

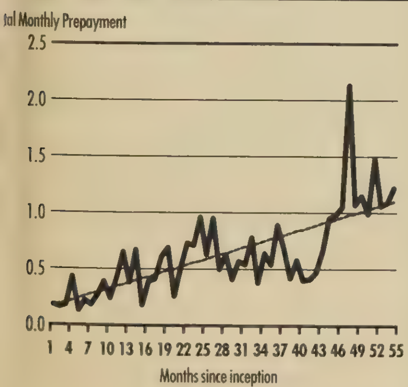
Conversely, when mortgage rates are rising, the benefit from prepaying falls. As mortgage rates approach or exceed the WAM of a pool, the benefit to prepayment drops to or below zero and we see that prepayments fall to a base level. As noted earlier, this base or "core" prepayment rate represents the natural turnover of mortgage properties that occurs regardless of prevailing rates.

From this we see that in combination with their prepayment privileges, the WAM of a pool gives a good indication of future prepayment patterns given any specific rate forecast.

SEASONING

Canadian prepayment history shows that as pools age, or season, the prepayment levels rise. Figure 2 shows the prepayment history for all five year pools initiated in 1987. To analyze the effects of seasoning, the Issue dates for this group of 1987 pools was set to time=0 and the average prepayment level for each successive period was calculated. One conclusion that can be drawn from the seasoning analysis is that issuers and investors should consider applying a gradually increasing prepayment rate to their MBS evaluations rather than a constant one.

Figure 2 Seasoning Effects, 1987 Five Year Prepayable Pools



rce: Wood Gundy CMHC – MAC 1992

SEASONALITY

It is widely accepted that sociological factors and the effects of a harsh Canadian climate contribute to most of the increased housing turnover occuring during the summer months and the drop in housing turnover occuring in the fall and winter months.

There were noticeable peaks in prepayments during the summers of 1987 and 1988 and regular dips around February of each year. For the following years, the clarity of the results is likely reduced due to the combined impact of falling rates and a prolonged recession. Once economic conditions stabilize and with them interest rates, seasonality effects may become more noticeable.

TIMING

In discussing "timing", we attempt to tie together the effect of all factors we have examined; prepayment provisions, seasoning, WAM/Current Mortgage Rate Differentials, etc. When we compared the prepayment histories for different groups of pools, we found some interesting patterns. Figure 3 shows the prepayment levels for pools initiated in 1987, 1988 and 1989.

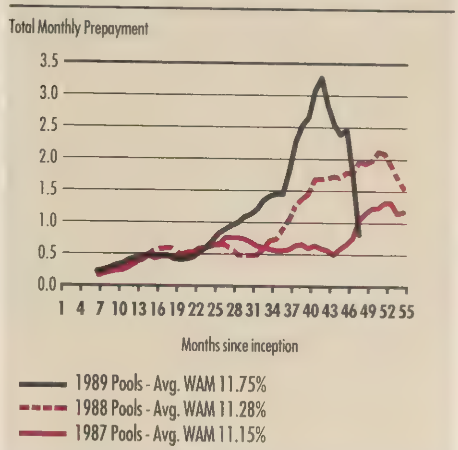
The results can be broken into three distinct ranges. They are the periods from 0-24 months, 25-48 months and over 48 months.

All three groups of pools had similar prepayment levels for the first 24 months. This is interesting because interest rates were rising during the first 24 months of the 1987 pools, while it was decreasing for the first 24 months of the 1989 pools. This illustrates the effect of prepayment provisions. Since refinancing is limited or severely penalized prior to the end of year three, the prepayment levels do not match movements in interest rates.

Since the underlying mortgages of MBS pools can mature up to six months prior to the maturity of the pool, we see an increase in prepayments prior to the 36th month. After 36 months (the start of the open period for mortgages) and up to 48 months the prepayment levels inversely follow interest rates, with higher WAM pools being more closely correlated to interest rates. For example 1987 pools, with a relatively low WAM, prepaid at lower rates than the 1989 pools during this period.

After 48 months the groups exhibited stabilizing or declining prepayment rates. This is due to the combination of the interest penalty charged on refinancing and the limited time to amortize this penalty over the remainder of the five year term. The effect is postponed for the 1987 pools since the period when their mortgages became open was characterized by extremely high market rates. This would tend to suppress any non-housing turnover induced prepayments.

Figure 3 Timing (6 month moving average)



Source: Wood Gundy CMHC – MAC 1992

This article was contributed by the Mortgage-Backed Securities Group at Wood Gundy Inc., in Toronto. If you would like further information about the Prepayment Experience of NHA-Mortgage-Backed Securities, Andrew Kriegler, Dean Smith, Dan Fraleigh and Paul Boyce may be reached at (416) 594-8504.

The views and opinions expressed or implied in this article are those of the authors and not Canada Mortgage and Housing Corporation.

NHA MORTGAGE-BACKED SECURITIES

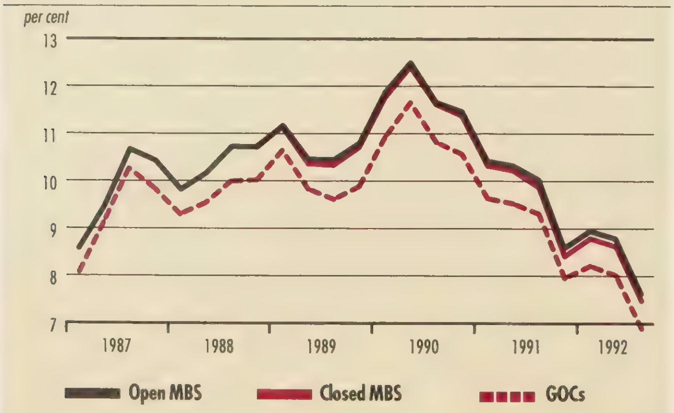
(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

		1990	1991	1992	91Q4	92Q1	92Q2	92Q3
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$000	$4,954.3	$7,603.1	$10,416.1	$7,603.1	$8,239.3	$9,114.0	$10,416.
	Units	494	771	989	771	827	884	98
Residential, single	$000	$3,417.7	$4,713.4	$6,069.4	$4,713.4	$4,937.5	$5,455.2	$6,069.
	Units	308	453	576	453	482	513	57
Residential, multiple	$000	$31.7	$51.4	$101.1	$51.4	$51.3	$47.2	$101.
	Units	4	6	6	6	6	5	
Social Housing	$000	$1,488.5	$2,654.1	$3,993.1	$2,654.1	$3,036.5	$3,369.5	$3,993.
	Units	181	304	393	304	330	355	39
Mixed	$000	$16.3	$184.2	$252.6	$184.2	$214.0	$242.1	$252.
	Units	1	8	14	8	9	11	1
ISSUES (TOTAL OF PERIOD)								
TOTAL	$000	$2,102.6	$3,187.4	$3,902.3	$1,080.9	$910.7	$1,214.2	$1,777.
	Units	177	282	260	80	63	79	11
Residential, single	$000	$1,308.9	$1,800.9	$2,366.3	$702.3	$470.7	$837.6	$1,058.
	Units	95	148	160	47	34	50	7
Residential, multiple	$000	$31.8	$20.1	$56.1	$0.0	$0.0	$0.0	$56.
	Units	4	2	1	0	0	0	
Social Housing	$000	$745.6	$1,197.3	$1,390.5	$308.7	$405.0	$343.5	$642.
	Units	77	125	93	31	28	27	3
Mixed	$000	$16.3	$169.1	$89.4	$70.0	$35.0	$33.1	$21.
	Units	1	7	6	2	1	2	
YIELDS (5-YEAR MATURITY, %)								
MBS Open		11.88	9.84	8.46	8.59	8.95	8.79	7.6
MBS Closed		11.76	9.67	8.25	8.37	8.75	8.58	7.4
MBS MMUF		—	9.76	8.37	8.46	8.87	8.71	7.5
MBS Hybrid		—	9.85	8.41	8.60	8.95	8.79	7.6
Mortgage rates		13.35	11.13	9.55	10.18	10.00	9.93	8.7
GOCs		10.97	9.07	7.66	7.91	8.17	7.97	6.8
SPREADS OVER GOC (5-YEAR MATURITY, %)								
Open		0.91	0.78	80	0.68	0.78	0.82	0.7
Closed		0.80	0.60	59	0.46	0.58	0.61	0.5
MMUF		—	0.69	71	0.55	0.70	0.73	0.6
Hybrid		—	0.78	80	0.69	0.78	0.82	0.8
Mortgage Rates		2.39	2.06	1.88	2.27	1.83	1.95	1.8

(1) Cumulative
Not seasonally adjusted data.

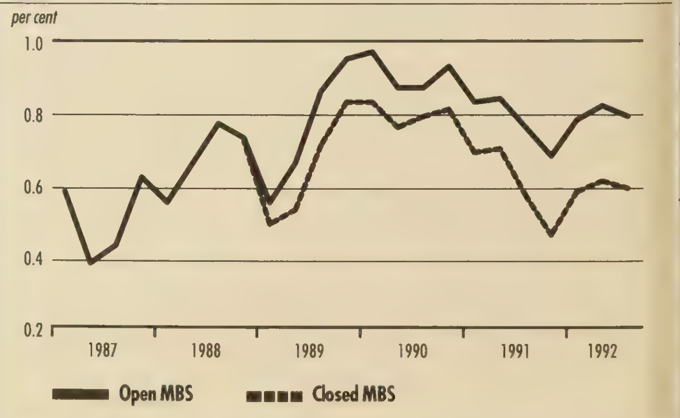
Source: CMHC, Burns Fry Limited — *CMHC – MAC 1992*

Selected Interest Rates (5-year maturity)



Source: Burns Fry Limited — *CMHC – MAC 1992*

Spreads over GOCs (5-year maturity)



Source: Burns Fry Limited — *CMHC – MAC 1992*

CMHC MORTGAGE MARKET

TRENDS

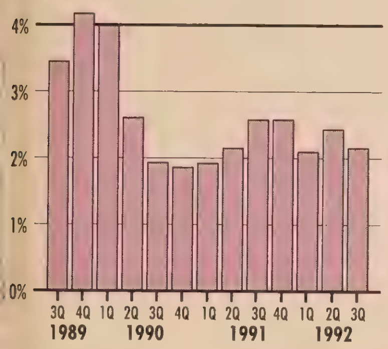
MARKET ANALYSIS CENTRE JANUARY 1993

MORTGAGE LENDING

MORTGAGE CREDIT OUTSTANDING JUMPED BY 9.9 PER CENT IN 1992

)utstanding mortgage credit, including NHA MBS Securities jumped 9.9 per cent in 1992, to an average preliminary ·alue of $276.6 billion. In a year of slow credit growth and massive write-offs, mortgage loans and securities provided high uality assets and good returns to lenders and investors.

esidential Mortgage Credit Growth*
'rom previous quarter)



›minal
rce: Bank of Canada CMHC – MAC 1993

arket Share of Residential Mortgage Credit

	3Q91	2Q92	3Q92
ınks	43.4%	44.3%	44.8%
ıst	29.6%	27.5%	26.6%
isses & Co-op	13.3%	13.8%	13.9%
e	7.1%	7.2%	7.4%
nsion Funds	3.5%	3.4%	3.3%
ı. & Loan	3.1%	3.8%	4.0%

·ce: Bank of Canada CMHC – MAC 1993

The 9.9 per cent jump resulted from the better performance of housing markets and refinancing activities that took place during the year. Housing starts rose 7.7 per cent to 168,271 units and sales on the existing market through the Multiple Listing Service (MLS)[1] increased by 8.6 per cent to 326,800 units. On average, the New House Price Index and the average MLS price changed only marginally. While prices rose strongly in British Columbia, they where still on the decline in most Ontario markets and they posted only moderate increases elsewhere.

Fourth quarter figures contributed to a great extent to the increase of lenders' mortgage portfolio. During the closing quarter of the year, mortgages outstanding increased by 3.0 percent to an average value of $276.3 billion, the largest increase since the middle of 1990. Housing markets showed resilience in the face of a temporary rise in mortgage interest rates. The interest rate spike was caused by the need to provide a stabilizing influence on the dollar following turmoil on currency markets.

The growth of mortgage credit is expected to accelerate to close to 11 per cent in 1993. A stronger economic recovery and fairly stable mortgage interest rates will lead to somewhat stronger housing markets. Total starts are expected to increase by 5 per cent to 177,000 units and MLS sales by slightly less than 2 per cent. This year, houses will show some appreciation in the 3 to 4 per cent for both the New House Price Index and for the average price of MLS sales. The new market in 1993 will reflect diverging trends for single and multiple unit starts. Single units starts are expected to increase by 14 per cent while starts of multiple units will drop by about 5 per cent due to lower starts of rental units.

Mortgage credit by type of financial institution was as follows for the third quarter of 1992, the last one for which detailed information is available. The new market share information reflects the inclusion of NHA MBS, which accounted for 3.6 per cent of the total outstanding. Chartered banks expanded their market share to 44.8 per cent. Increases were also posted for life insurance companies (7.4 per cent) and finance companies (4.0 per cent). Trusts' market share continued to decline (to 26.6 per cent). Market shares of CO-OP and Caisses populaires and Pension funds were almost unchanged at 13.8 and 3.3 per cent respectively.

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

MORTGAGE MARKET OUTLOOK FOR 1993

Representatives of four of Canada's major lenders provide their views on the outlook for the Canadian Mortgage Market in 1993. The consensus view is for moderate growth in mortgage lending activity concentrated in single housing units. Job uncertainty and high debt levels will prevent the housing market from booming in spite of relatively low interest rates.

J. Michael Braid
Vice-President, Mortgages
Toronto-Dominion Bank

The uneven pace of Canada's economic recovery has been mirrored by the recent volatility in new housing starts. The reversal of the recent spike in interest rates and a rise in consumer confidence, in combination with a boost from the extension of the RRSP Home Buyers' plan to March 1994, will each play a role in stronger housing activity in 1993. Total housing starts are forecast to rise to 185,000 units in 1993, and to 190,000 units by 1994.

In the coming years, as Canada's population ages, there will be fewer people in the first-time homebuyer age group.

Changes in demographics have an important impact on the housing market. In the coming years, as Canada's population ages, there will be fewer people in the first-time homebuyers' age group. Fewer first-time homebuyers will inevitably mean lower demand for homes in the 1990's compared to the peak years of the 1980's. The market of the 1990's is in sharp contrast to the market of the 1980's, when strong demand by baby-boomers, who were then in their prime home-buying age, fuelled the surge in building activity and prices. Under the market conditions of the 1990's, the average homeowner is expected to occupy the same home for longer periods of time, so that renovations and alterations will consume a larger share of housing expenditures.

Warren Jestin
Senior Vice President & Chief Economist,
The Bank of Nova Scotia

The Canadian economy is expected to build momentum gradually through 1993, with housing starts moving up 175,000 units. Residential activity will be supported by relatively low mortgage rates, strong international immigration and a better supply/demand balance in single family homes. Extending the RRSP tax holiday for home purchases also will help. Nevertheless, multiple units construction will be held back by high vacancy rates across the country. Government-assisted units — largely in Ontario — will bolster starts but aggravate the existing supply overhang.

The durability of any revival hinges on the domestic financial market environment.

The durability of any revival hinges on the domestic financial market environment. Both the prospect of a lengthy economic convalescence and minimal inflation point to lower borrowing costs in 1993. However, residential activity is very susceptible to adverse interest rate movements because household debt is at a record relative to disposable income. Sudden shifts in international investor sentiment have triggered recurring bouts of exchange rate and interest rate turbulence in recent months and could put yet another roadblock in the way of recovery.

Consumer confidence will also be an important factor determining the extent of improvement in the housing sector. Recent evidence that employment has begun to inch higher is certainly good news. However, uncertainty over job security will linger as firms continue to restructure and streamline operations in the face of relentless competition. Spending power will continue to be squeezed by wage restraint, tax increases and the rising cost of government services. Weak earnings trends will frustrate the ability to reduce debt leverage. All of these factors will keep Canadians financially conservative and very cautious about major purchases.

Paul F. Mullen
General Manager, Risk Management, Residential
CIBC Mortgage Corporation

While the official recession was short – ending after a year in the first quarter of 1991 – the economy which has emerged is fundamentally different from the one that existed in the 1970's and 1980's. Many companies, in many industries, have been forced to restructure for the 1990's. This restructuring and the resulting pressure on the unemployment rate, has caused an erosion in consumer confidence.

Despite this consideration, Canada is projected to grow steadily through mid-decade. We expect housing starts in

the 175,000 unit range in 1993. Higher affordability and gains in employment will nudge first-time buyers to enter the housing market and it will be this group of purchasers which will fuel the housing industry. The RRSP program and the 95 per cent lending initiative have, and will continue to have an impact. Multiple-unit construction is not expected to rebound strongly and demand for condominiums will remain low relative to stock.

The RRSP program and the 95 per cent lending initiative have and will continue to have an impact.

Gradual improvement in mortgage arrears levels are expected as the economy strengthens. However, there will be areas which feel the brunt of corporate restructuring such as St.Catharines and Windsor. Risk management will be embraced as the focus for most major lenders during 1993 and not just a "buzz word" to be used during recessionary times.

Tom Alton
President,
Bank of Montreal Mortgage Corporation

The recovery of the Canadian economy will gather momentum in 1993. The main forces driving the recovery are the accumulative decline in short-term rates, the recent depreciation of the Canadian dollar, prospective further declines in long-term rates of interest, and the expected recovery in the U.S. economy.

The important element of this outlook for the housing markets is the continuing decline of interest rates which broadens affordability.

Short-term mortgage rates are forecast to decline to their 20 year lows established in September 1992 under the deflationary force restructuring the economy.

The one-year mortgage rate which hit a low of 6.25 per cent in early September and was pushed to 8.25 per cent in November by the falling Canadian dollar, will return to the 6.25 per cent level before the end of 1993.

The five-year mortgage rate which hit a low of 8.5 per cent in September should decline from its current level of 9.5 per cent to a low range of 8 per cent later in 1993.

As the year progresses, the recovery is expected to gain both speed and breadth with the growth overall in 1993 being somewhat over 3 per cent.

The rebound in demand will be constrained by the relatively high levels of personal and government debt and as a result, while growth strengthens, the unemployment rate will remain stuck above 11 per cent throughout the year. Inflation continues to be well in hand, easing to 1.25 per cent by the fourth quarter of 1993, as measured by the Consumer Price Index. With such low inflation rates, the economy will continue to be constrained by the high real rates of interest. In order for the recovery in the economy and the housing markets to be sustained, a decline in real interest rates is required in 1993.

The important element of this outlook for the housing markets is the continuing decline of interest rates which broadens affordability.

As we move in 1994, housing starts should once again move into the 200,000 annual range, the highest level since 1989.

MORTGAGE FINANCING

HOMEOWNERSHIP COULD BE ENHANCED BY A LONGER AMORTIZATION PERIOD

Low prices and interest rates along with 95 per cent mortgages and the use of RRSP funds for downpayments have made homeownership more affordable over the past year. However, even with these changes, affordable homeownership continues to be a concern for many. The use of RRSP funds and 95 per cent mortgages has helped those who have trouble saving for a downpayment. For those who find large monthly payments a problem, longer amortization periods might help.

A longer amortization period allows the borrower the benefit of lower monthly payments. On a $100,000 mortgage amortized over 25 years at 9.5 per cent, monthly payments would amount to $861. Extending the amortization period to 30 years would lower the monthly payment by $33 to $828. With a 40 year amortization period, the longest that CMHC can insure, monthly payments are reduced by $65 to $796.

A starter-home priced at $131,000 (the average price of homes insured with an NHA mortgage) with a ten per cent downpayment and amortized over 25 years would require a household income of $44,100 to carry the monthly payments. If it is amortized over 30 years, the required income would drop to $42,400 and if amortized over 40 years, required income would be $40,700.

A longer amortization period lowers the cash requirements mortgagors need to meet start up costs during the first years of the purchase. Higher total payments resulting from a longer amortization period could be offset if mortgagors choose, as is often the case, to pay off their mortgage loan faster as household income improves.

If inflation stays low throughout the nineties, the demand for long-term mortgages (25-year and over) could increase somewhat. Lenders offering extended amortization periods could capture this demand.

$100,000 MORTGAGE @ 9.50 PER CENT

Amortization Period (years)	*Montly Payments ($)*	*Monthly Saving($)*
25	861.03	-
30	827.55	33.48
35	807.81	53.22
40	795.87	65.16

Source: CMHC *CMHC – MAC 1993*

Mortgage Credit Outstanding[1] (in millions of dollars)

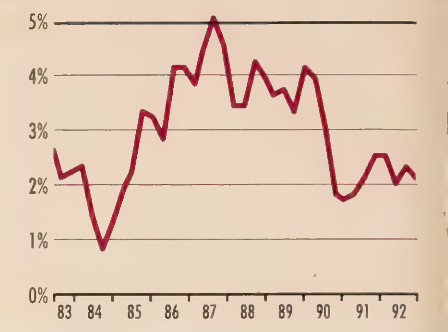
	1990	1991	1992[2]	92Q1	92Q2	92Q3	92Q4
TOTAL	230,987	251,693	287,552[e]	258,667	264,263	269,174	276,638[e]
% change	14.2	9.0	9.9[e]	1.8	2.2	1.9	–
Banks	97,062	108,770	123,559	117,162	121,000	125,155	130,919
Trust Co.	72,824	75,126	–	75,551	75,179	74,195	–
Caisses & CO-OP	30,212	33,384	–	36,588	37,772	38,681	–
Life Ins. Co.	15,937	17,897	–	18,985	19,663	20,785	–
Pension Funds	8,293	8,692	–	9,083	9,160	9,320	–
Fin. & Loan	6,658	7,824	–	9,345	10,298	11,076	–

(1) Seasonally Adjusted Data (2) Cumulative (e) Estimate

Source: Bank of Canada *CMHC – MAC 1993*

Residential Mortgage Credit Growth

(in per cent)



Source: Bank of Canada; CMHC *CMHC – MAC 1993*

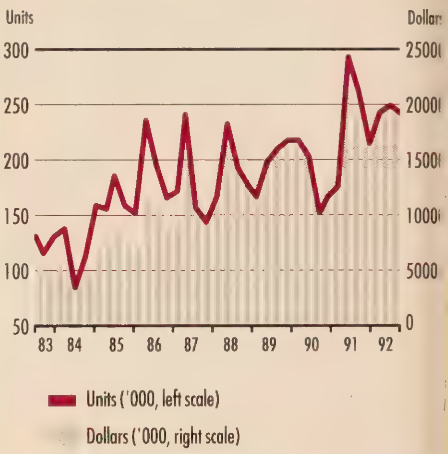
NHA and Conventional Loans Approved[1]

		1991	1992[2]	91Q3	91Q4	92Q1	92Q2	92Q3
TOTAL	$000	69,345	18,784	18,636	16,124	18,784	19,539	19,467
	Units	947,979	243,106	261,418	215,861	243,106	249,468	242,553
NHA	$000	15,430	6,115	3,787	4,180	6,115	6,021	5,998
	Units	184,112	66,779	45,045	47,777	66,779	66,896	65,951
Conventional	$000	53,915	12,669	14,849	11,944	12,669	13,518	13,469
	Units	763,867	176,327	216,373	168,084	176,327	182,572	176,602
By Type of Lender								
Banks	$000	38,232	11,030	10,837	9,148	11,030	12,663	12,778
	Units	474,066	131,548	135,041	110,369	131,548	151,667	147,916
Trust Co.	$000	15,283	4,027	3,860	3,483	4,027	3,518	3,924
	Units	230,015	55,548	66,124	49,792	55,548	49,779	55,075
Life Ins. Co.	$000	4,697	1,784	1,138	1,129	1,784	1,137	763
	Units	86,768	31,652	20,231	18,851	31,652	17,704	12,930
Others	$000	11,133	1,943	2,801	2,364	1,943	2,221	2,002
	Units	157,130	24,358	40,022	36,849	24,358	30,318	26,632

(1) Not Seasonally Adjusted at Annual Rate (2) Cumulative

Source: CMHC *CMHC – MAC 1993*

NHA and Conventional Approvals



Source: CMHC *CMHC – MAC 199*

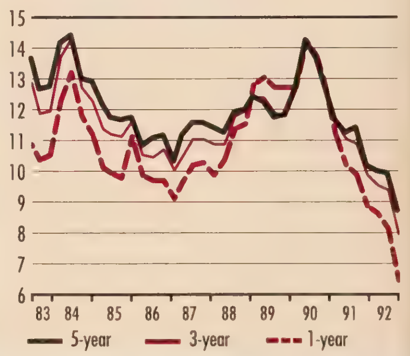
Mortgage Rates (Average of period)

	1990	1991	1992[1]	91Q4	92Q1	92Q2	92Q3	92Q4
1-Year Mortgage Rate	13.40	10.08	7.87	8.92	8.67	8.17	6.50	8.15
3-Year Mortgage Rate	13.38	10.90	8.95	9.92	9.58	9.42	8.00	8.82
5-Year Mortgage Rate	13.35	11.13	9.51	10.18	10.00	9.93	8.71	9.42

(1) Cumulative

Source: CMHC *CMHC – MAC 1993*

Mortgage Rates *(in per cent)*



Source: Bank of Canada *CMHC – MAC 199*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Marc Pellerin, Capital Markets Economist, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7,
Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 495-2003.

Mortgage Market Trends is a quarterly publication. Enquiries regarding subscription should be directed to:
Canada Communication Group-Publishing, Ottawa, Canada K1A 0S9. Tel.: (819) 956-4802; Fax: (819) 994-1498.

Cette publication est aussi disponible en français sous le titre SCHL Tendances du marché hypothécaire – LNH 6109 1T/93

ISSN 1188-4215
Catalogue No. NH12-8-1993-4E Regular subscription (4 Issues) $44. plus applicable taxes, orders outside Canada add 30%.
Printed in Canada

NHA Mortgage-Backed Securities Fourth Quarter Issues

October 1992 to December 1992

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: October 1992						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96406103	BANQUE NATIONALE DU CANADA	51,252,728.55	7.750	August 01, 1997	9.37	23.17
96406111	BANQUE NATIONALE DU CANADA	12,974,596.99	7.750	August 01, 1997	9.18	15.67
96406129	BANQUE NATIONALE DU CANADA	4,991,467.78	7.750	August 01, 1997	8.97	12.67
96406145	LONDON LIFE INSURANCE CO.	3,202,400.25	6.750	October 01, 1997	9.74	18.50
96406152	LONDON LIFE INSURANCE CO.	8,026,458.11	6.750	October 01, 1997	8.87	19.08
96406251	FAMILY TRUST CORPORATION	7,952,074.37	6.875	September 01, 1997	8.97	24.25
96406269	TORONTO-DOMINION BANK	2,949,090.39	7.750	September 01, 2002	10.25	18.00
96406277	LONDON LIFE INSURANCE CO.	4,911,605.09	6.750	September 01, 1997	9.77	24.33
96406285	LONDON LIFE INSURANCE CO.	15,566,406.51	6.750	October 01, 1997	8.76	24.08
96406301	TORONTO-DOMINION BANK	2,173,439.44	7.500	September 01, 2002	10.34	10.92
96406319	ROYAL TRUST COMPANY	50,004,346.50	7.000	August 01, 1997	9.42	24.00
96406335	FAMILY TRUST CORPORATION	3,005,826.72	7.000	August 01, 1997	10.21	23.75
96406350	MANUFACTURERS LIFE INS. CO.	5,955,437.28	7.375	November 01, 1997	9.35	17.75
96406368	MANUFACTURERS LIFE INS. CO.	3,891,273.51	7.375	November 01, 1997	8.55	17.42
96406376	MANUFACTURERS LIFE INS. CO.	3,006,998.65	8.375	November 01, 2002	9.78	24.50
96406384	LONDON LIFE INSURANCE CO.	9,629,269.11	7.375	October 01, 1997	8.82	17.92
96406392	LONDON LIFE INSURANCE CO.	3,200,403.41	7.125	October 01, 1995	8.26	24.42
96406400	MANUFACTURERS LIFE INS. CO.	3,502,679.80	7.125	November 01, 1995	7.96	23.25
96406418	MANUFACTURERS LIFE INS. CO.	19,767,891.97	7.625	November 01, 1997	8.51	23.75
96406459	LONDON LIFE INSURANCE CO.	2,301,186.68	7.375	October 01, 1996	8.37	22.08
96406467	MANUFACTURERS LIFE INS. CO.	10,061,659.44	7.500	November 01, 1997	8.28	23.83
96406475	MANUFACTURERS LIFE INS. CO.	8,998,483.97	7.500	November 01, 1997	8.41	22.75
96406483	MANUFACTURERS LIFE INS. CO.	3,818,388.85	7.500	November 01, 1997	8.39	17.17
96406491	MANUFACTURERS LIFE INS. CO.	12,715,567.95	7.500	December 01, 1997	8.41	24.25
96406509	MANUFACTURERS LIFE INS. CO.	2,975,166.01	8.375	November 01, 2002	9.25	24.42
96406517	MANUFACTURERS LIFE INS. CO.	2,998,979.76	6.125	November 01, 1994	7.16	21.92
96406541	MANUFACTURERS LIFE INS. CO.	4,730,476.73	8.500	November 01, 2002	9.29	18.25
96406558	MANUFACTURERS LIFE INS. CO.	7,697,479.57	8.500	November 01, 2002	9.85	18.00
96406566	MANUFACTURERS LIFE INS. CO.	3,759,769.11	8.125	November 01, 1999	10.09	18.25
96406673	MANUFACTURERS LIFE INS. CO.	9,520,564.50	8.375	November 01, 2002	9.15	23.58
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500152	MANUFACTURERS LIFE INS. CO.	6,988,363.89	8.375	November 01, 2002	9.55	23.83
SOCIAL HOUSING POOLS						
99003980	METROPOLITAN TRUST COMPANY	10,071,433.23	6.250	October 01, 1997	7.18	25.33
99003998	TORONTO-DOMINION BANK	3,996,157.41	6.500	October 01, 1997	7.33	28.33
99004012	CIBC MORTGAGE CORPORATION	2,260,389.49	6.500	October 01, 1997	7.30	21.67
99004020	TORONTO-DOMINION BANK	13,286,416.22	6.875	September 01, 1997	7.58	34.92
99004046	FIDUCIE DESJARDINS INC.	2,330,003.00	6.875	October 01, 1997	7.39	35.00
99004053	BANK OF NOVA SCOTIA	67,697,999.01	6.375	October 01, 1997	8.20	34.83
99004061	BANK OF NOVA SCOTIA	11,451,808.12	6.375	October 01, 1997	7.30	24.92
99004095	FIRSTLINE TRUST COMPANY	11,638,013.43	8.125	October 01, 2017	8.75	28.00
99004103	VANCOUVER CITY SAVINGS C.U.	3,179,736.81	6.500	October 01, 1997	7.23	23.92
99004145	CIBC MORTGAGE CORPORATION	61,111,208.00	7.875	October 01, 1997	8.98	35.00
99004178	FIRSTLINE TRUST COMPANY	20,452,457.00	7.500	October 01, 1997	10.43	35.00
MONTH OF ISSUE: November 1992						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96406426	BANQUE NATIONALE DU CANADA	12,040,387.11	7.375	September 01, 1997	8.77	12.67
96406434	BANQUE NATIONALE DU CANADA	19,343,907.60	7.375	September 01, 1997	8.82	16.00
96406442	BANQUE NATIONALE DU CANADA	48,296,730.44	7.375	September 01, 1997	8.96	22.58
96406525	ROYAL TRUST COMPANY	35,004,303.86	7.500	September 01, 1997	8.44	23.42
96406533	PEOPLES TRUST COMPANY	3,301,457.02	7.875	September 01, 1997	9.77	23.33
96406574	VANCOUVER CITY SAVINGS C.U.	48,219,050.97	7.375	September 01, 1997	9.22	23.75
96406582	ROYAL TRUST COMPANY	65,003,722.52	7.750	October 01, 1997	8.42	23.25
96406590	LONDON LIFE INSURANCE CO.	9,204,367.19	7.625	November 01, 1997	8.57	19.50
96406608	LONDON LIFE INSURANCE CO.	12,200,607.81	7.500	November 01, 1997	8.56	24.42
96406681	MANUFACTURERS LIFE INS. CO.	4,491,132.28	8.875	November 01, 2017	9.96	24.67
96406699	TORONTO-DOMINION BANK	2,670,284.09	8.500	October 01, 2002	10.14	23.92
96406715	FIRSTLINE TRUST COMPANY	3,813,422.42	9.000	November 01, 2017	9.96	18.67
96406723	MANUFACTURERS LIFE INS. CO.	7,771,251.09	8.500	December 01, 2002	9.81	23.50
96406731	MANUFACTURERS LIFE INS. CO.	8,405,703.85	8.250	December 01, 2002	9.22	23.50
96406756	FIRSTLINE TRUST COMPANY	10,228,129.51	8.375	December 01, 2002	9.40	18.08
96406772	MANUFACTURERS LIFE INS. CO.	6,586,737.47	8.375	January 01, 2003	9.55	23.67
96406780	MANUFACTURERS LIFE INS. CO.	3,383,092.04	8.375	December 01, 2002	8.99	18.25
96406798	FIRSTLINE TRUST COMPANY	2,971,903.68	7.625	December 01, 1997	8.98	17.50

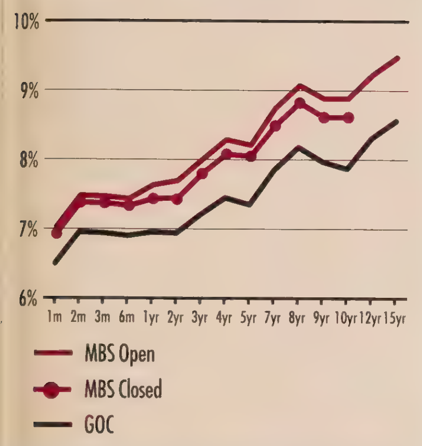
POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500160	FIRSTLINE TRUST COMPANY	9,922,632.88	8.125	December 01, 1997	8.87	23.50
SOCIAL HOUSING POOLS						
99004111	TORONTO-DOMINION BANK	5,472,391.58	6.750	November 01, 1997	7.50	25.00
99004129	METROPOLITAN TRUST COMPANY	2,962,557.57	6.750	November 01, 1997	7.55	25.00
99004137	CIBC MORTGAGE CORPORATION	9,670,131.24	6.625	November 01, 1997	7.45	23.08
99004152	FIDUCIE DESJARDINS INC.	2,280,230.00	7.625	November 01, 1997	8.22	35.00
99004160	ROYAL BANK OF CANADA	2,146,804.87	7.000	November 01, 1997	7.54	34.25
99004186	MARITIME LIFE ASSURANCE CO.	5,013,129.58	6.875	September 01, 1997	7.43	34.75
99004194	METROPOLITAN TRUST COMPANY	11,033,187.58	8.750	November 01, 2017	9.33	30.00
99004236	BANK OF NOVA SCOTIA	8,267,431.26	6.750	November 01, 1997	7.80	27.50
99004285	TORONTO-DOMINION BANK	2,007,593.60	8.000	September 01, 1997	10.69	34.83
99004293	TORONTO-DOMINION BANK	41,443,128.34	7.000	November 01, 1997	7.68	35.00
99004301	CIBC MORTGAGE CORPORATION	16,874,207.98	6.875	November 01, 1997	7.67	35.00
99004327	BANK OF NOVA SCOTIA	20,310,840.20	6.375	November 01, 1997	7.86	35.00
99004335	BANK OF NOVA SCOTIA	6,236,250.52	6.125	November 01, 1995	7.24	35.00
99004368	MANUFACTURERS LIFE INS. CO.	23,593,427.73	7.125	October 01, 1997	8.43	35.00
99004376	MANUFACTURERS LIFE INS. CO.	18,883,918.79	7.250	October 01, 1997	8.42	35.00
99004384	MANUFACTURERS LIFE INS. CO.	31,395,107.23	7.625	November 01, 1997	8.45	35.00
99004434	FIRSTLINE TRUST COMPANY	6,345,141.00	7.500	November 01, 1997	10.53	35.00
MONTH OF ISSUE: December 1992						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96406616	BANQUE NATIONALE DU CANADA	177,535,418.79	8.000	October 01, 1997	8.87	22.17
96406624	BANQUE NATIONALE DU CANADA	116,541,510.91	8.000	October 01, 1997	8.91	16.42
96406632	BANQUE NATIONALE DU CANADA	74,259,929.29	8.000	October 01, 1997	8.90	12.83
96406640	BANQUE NATIONALE DU CANADA	54,200,164.40	8.000	October 01, 1997	9.95	22.33
96406657	BANQUE NATIONALE DU CANADA	32,381,880.10	8.125	October 01, 1997	9.94	16.50
96406665	BANQUE NATIONALE DU CANADA	17,500,023.27	8.000	October 01, 1997	9.92	12.83
96406707	TORONTO-DOMINION BANK	2,543,788.98	8.500	November 01, 2002	9.85	17.25
96406749	ROYAL TRUST COMPANY	50,002,827.49	7.250	October 01, 1997	8.42	23.75
96406764	ROYAL TRUST COMPANY	8,000,407.70	8.250	November 01, 2002	9.76	23.33
96406806	LONDON LIFE INSURANCE CO.	4,168,637.20	7.250	November 01, 1995	7.87	24.58
96406814	LONDON LIFE INSURANCE CO.	8,552,249.40	7.250	December 01, 1996	8.03	23.83
96406822	LONDON LIFE INSURANCE CO.	3,969,418.61	7.500	November 01, 1996	8.32	18.92
96406830	TORONTO-DOMINION BANK	2,392,043.40	8.250	November 01, 2002	9.89	13.17
96406855	LONDON LIFE INSURANCE CO.	27,083,352.85	7.750	December 01, 1997	8.57	24.58
96406863	LONDON LIFE INSURANCE CO.	23,099,360.47	7.750	December 01, 1997	8.53	19.25
96406871	FIRSTLINE TRUST COMPANY	4,643,964.44	8.375	February 01, 2003	9.21	23.67
96406889	MANUFACTURERS LIFE INS. CO.	5,459,719.75	8.375	February 01, 2003	9.12	18.00
96406897	MANUFACTURERS LIFE INS. CO.	2,949,061.45	9.000	December 01, 2017	10.01	18.58
96406905	SECURITY HOME MORTGAGE INV.COR	2,027,452.24	7.875	December 01, 1997	8.97	24.17
96406913	ROYAL TRUST COMPANY	50,001,100.03	8.000	November 01, 1997	8.56	23.17
96406921	MANUFACTURERS LIFE INS. CO.	6,974,899.41	8.625	February 01, 2003	9.64	17.67
96406939	LONDON LIFE INSURANCE CO.	7,431,605.93	8.000	December 01, 1997	8.75	24.00
96406947	LONDON LIFE INSURANCE CO.	6,431,516.01	8.000	December 01, 1997	8.66	18.67
96406954	LONDON LIFE INSURANCE CO.	3,556,355.05	7.875	December 01, 1997	9.55	24.42
96406962	LONDON LIFE INSURANCE CO.	5,373,262.86	7.875	December 01, 1997	8.57	13.75
96406970	FIDUCIE DESJARDINS INC.	7,529,160.89	8.000	November 01, 1997	9.63	22.92
96406988	LONDON LIFE INSURANCE CO.	2,418,273.25	7.250	November 01, 1995	7.90	18.92
96407044	MANUFACTURERS LIFE INS. CO.	15,758,850.92	7.750	December 01, 1999	8.70	18.00
96407069	MANUFACTURERS LIFE INS. CO.	4,918,759.11	8.250	February 01, 1998	9.06	17.92
96407085	FIRSTLINE TRUST COMPANY	4,618,612.73	6.125	January 01, 1995	7.05	23.17
96407119	MANUFACTURERS LIFE INS. CO.	34,657,490.80	7.750	February 01, 1998	8.35	23.08
96407127	MANUFACTURERS LIFE INS. CO.	4,679,206.34	8.625	February 01, 2003	9.63	17.92
96407135	FIRSTLINE TRUST COMPANY	4,604,495.39	8.375	February 01, 2003	9.59	24.33
96407143	MANUFACTURERS LIFE INS. CO.	6,546,146.68	7.000	January 01, 1996	7.77	23.17
96407168	MANUFACTURERS LIFE INS. CO.	6,617,071.95	7.750	January 01, 1996	8.60	23.42
SOCIAL HOUSING POOLS						
99004202	TORONTO-DOMINION BANK	3,622,230.58	7.000	December 01, 1997	7.81	15.00
99004210	TORONTO-DOMINION BANK	2,668,960.50	7.750	December 01, 2002	8.38	25.00
99004228	TORONTO-DOMINION BANK	24,986,156.20	7.125	December 01, 1997	7.86	25.42
99004244	METROPOLITAN TRUST COMPANY	7,128,309.49	7.250	December 01, 1997	8.02	24.17
99004251	METROPOLITAN TRUST COMPANY	5,540,909.77	7.250	December 01, 1997	8.03	25.67
99004269	CIBC MORTGAGE CORPORATION	4,751,265.30	8.125	December 01, 2002	8.65	25.00
99004277	CIBC MORTGAGE CORPORATION	10,151,516.97	7.125	December 01, 1997	7.93	27.92
99004319	PEOPLES TRUST COMPANY	2,475,259.47	7.375	October 01, 1997	8.57	34.75
99004343	FIDUCIE DESJARDINS INC.	8,904,261.00	7.125	December 01, 1997	7.70	35.00
99004418	TORONTO-DOMINION BANK	25,532,899.92	7.125	December 01, 1997	7.89	30.00
99004426	MARITIME LIFE ASSURANCE CO.	3,395,715.29	6.500	November 01, 1997	7.47	24.33
99004467	CIBC MORTGAGE CORPORATION	90,158,140.50	7.750	December 01, 1997	8.65	35.00
99004475	TORONTO-DOMINION BANK	14,316,982.00	7.875	December 01, 1997	8.65	35.00
99004483	BANK OF NOVA SCOTIA	34,882,109.53	6.750	December 01, 1997	8.47	33.67
99004491	BANK OF NOVA SCOTIA	2,438,150.14	6.750	December 01, 1997	8.21	24.67

NHA MORTGAGE-BACKED SECURITIES

NHA MBS ISSUES LEAPT AHEAD OF $2 BILLION DURING THE FOURTH QUARTER OF 1992

Mortgage lenders issued 128 NHA Mortgage-Backed Securities (MBS) totalling $2,057.2 million during the last three months of 1992. Relatively low mortgage interest rates and refinancing activities favored higher amounts of new MBS.

NHA Mortgage-Backed Securities Yield Analysis – *December 31, 1992**



* Bid Side
Source: Burns Fry Limited — CMHC – MAC 1993

NHA Mortgage-Backed Securities Yield Analysis – *Market at 2:30 p.m. January 19, 1993**

GOC description				
Coupon Rate	Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
7.00%	03/95	Open	62	7.44%
6.00%	02/96	Open	70	7.72%
7.50%	07/97	Open	81	8.20%
7.50%	07/97	Closed	60	7.99%
6.25%	02/98	Open	58	7.93%
6.25%	02/98	Closed	58	7.93%
8.50%	04/02	Open	83	8.87%

* Bid Side
Source: Telerate; average for MBS traders — CMHC – MAC 1993

The quarterly amount of NHA MBS issues leapt ahead of the $2 billion mark for the first time since the inception of the program. This compared to the previous record of 118 new pools totalling $1,777.4 million observed in the third quarter of 1992.

Two factors explain the strong use of the NHA MBS program by mortgage lenders. First, despite a temporary spike during that period, mortgage rates remained low enough to allow for faster growth in mortgage credit outstanding (see the article on page 1).

Second, and more importantly, refinancing activities continued to post strong growth. The prepayment rate (also called Unscheduled Principal Payment or UPP) on MBS rose further during the last quarter of 1992. As in the third quarter, the increase is noticeable for MBS pools issued in 1990 and 1991 for which average mortgage rates are higher than those on mortgages pooled in other years. Higher refinancing activities are not only explained by relatively low interest rates but also by the fierce competition for clients among lenders. In late September and the beginning of October, for example, one lender offered to pay part of refinancing costs if existing or new clients renewed their mortgage for five years when rates were at 8.50 per cent. This lender issued 45 per cent of all new pools in the residential single unit category ($621.3 out of $1,377.9 million) during the quarter.

The increased volume of new MBS issues, especially in December, contributed to widening the yield spreads over the Government of Canada bonds. The yield on non-prepayable pools (also called Closed pools, which include social housing only) stood 66 basis points over Governement of Canada Bond's (GOCs) for the five-year maturity compared to 59 basis points in the third quarter. Higher prepayment rates on single unit mortgage loans also contributed to widening the spreads further in the case of prepayable pools (Open pools, which also include multiple unit pools and a mix of all the above). The differential between five-year Closed pools and five-year GOCs increased 8 basis points to 88 during the same period.

For 1992 as a whole, 388 NHA MBS totalling $5,959.5 million were issued. This compares to 282 new NHA MBS issues for a total of $3,187.4 million observed in 1991. As a result of the success of the NHA MBS program, the outstanding amount jumped to $11,954.8 million at the end of 1992 in comparison with $7,603.1 million observed at the end of 1991 (see the table on page 8 for details).

CANADIAN AND U.S. MORTGAGE PASS-THROUGHS: TWO DIFFERENT BEASTS

In 1970, Mortgage Backed-Securities (MBS) were introduced in the U.S. to create a national mortgage market and resolve the fund mismatch problems that developed at that time. Canada followed suit in 1987. Major differences in the functioning of the primary mortgage market have led the Canadian and the U.S. investors to tailor specific MBS products. The following briefly describes tha main features of Canadian and U.S. MBS.

THE U.S. MARKET

Mortgage pass-throughs, also called MBS, were introduced in the beginning of the seventies as a solution to two serious problems in housing finance. First, there was a need to create a national capital market for mortgages. Fund availability was a problem as lenders were very limited to operate nationwide. Second, lenders bore all the interest rate risk lending long (15 or 30 years) and taking short-term deposits. This mismatch of funds was no longer tenable in an environment of rising interest rates. Four basic MBS programs have been designed in the U.S. since 1970.

Ginnie Mae

The Government National Mortgage Loan Association (GNMA), or Ginnie Mae, part of the Housing and Urban Development Department, the federal housing agency, was the first to launch a pass-through securities Program (referred as MBS) for FHA/VA Loans in 1970. These are mortgage loans guaranteed by the Federal Housing Administration (FHA), which insures the lender against default for those not having enough money as downpayment for a conventional mortgage loan. The Veteran Association loan (VA) is also a program sponsored by the Federal Government.

Approved lenders can issue MBS up to maximum amount fixed annually by the U.S. Congress. MBS carry the guaranty for full and timely payment of principal and interest to investors. MBS are backed by the full faith and credit of U.S. government. The delay between the inception of the pool and the first payment to investors is 45 days with timely payments the 15th of the month thereafter. Mortgage loans must not be older than 2 years and mortgage contract rates must be the same for single family pools and 100 basis points for multiple family pools. Most of the pools have a 15 or 30-year maturity as most of mortgages in the U.S. carry fixed rate mortgage for the same terms. Pools with shorter maturities at inception, such as Adjustable Rate Mortgages (ARMs) or Graduated Payment Mortgages (GPMs) are also available.

> Four basic MBS programs have been designed in the U.S since 1970.

In 1983, Ginnie Mae supplemented its original pass-through program (now called GNMA I) with a second program called GNMA II. Pools in this program may include both single and multiple unit mortgages and may be originated by several lenders. The advantage of this program is to deliver monthly principal and interest from several pools to investors into only one monthly cheque. However, this advantage is offset by the fact that GNMA II securities make monthly payments five days later than do GNMA I securities because data must be processed by a Central Paying Agent.

Freddie Mac

The Federal Home Loan Mortgage Corporation (FHLMC) also known as "Freddie Mac" was created in 1970 by the Congress to establish an active secondary market for conventional residential mortgages (those not FHA/VA insured). In fact, Freddie Mac was not really a government agency but a corporation owned by the Federal Home Loan Banks Association and member saving and loan associations. With the problems of thrifts institutions in the U.S., Freddie Mac has been changed to a public corporation with a government charter. Freddie Mac issued its first MBS called Participation Certificates (PCs) in 1971.

Freddie Mac began securitizing the mortgages it purchased itself from the lenders under a program called FHLMC Cash PCs. Mortgages purchased are conventional one-to-four unit family loans. In order to provide greater liquidity to the troubled thrift industry, Freddie Mac introduced in July 1981 its Guarantor Program, or swap program, which allows the lenders to securitize loans of any age (seasoned mortgages). Loans in the lender's portfolio are exchanged (swapped) with FHLMC for FHLMC PCs backed by the same mortgages.

As with Ginnie Mae, most of the pools issued are for single family 15 or 30-year fixed rate mortgages. Furthermore, pools including ARMs, Tiered Payment Mortgages (TPMs), or balloon mortgages are also available under FHLMC programs.

Freddie Mac MBS, however, differ from Ginnie Mae MBS in several respects. First Freddie Mac only guarantees the timely payment of interest and the eventual payment of principal. In addition, investors must wait 54 days (in comparison with 45 for GNMA I) before

receiving their first payment, with timely payments the 15th of the month thereafter. But the initial payment delay has been shortened to 45 days with the introduction of the PC Gold Program in 1990. Furthermore, under this new program, Freddie Mac also guarantees the timely payment of both interest and principal.

Second, contrary to government insured loans, conventional loans within Freddie Mac pools are not generally assumable, that is, the mortgage loans must be repaid when the borrower sells the house. Third, different mortgage loan rates may vary as much as 200 basis points within the same pool. Fourth, mortgages pooled may be from different lenders.

Because, Freddie Mac pools do not carry the full guarantee of the government, they are traded at a higher yield (lower price) than Ginnies Mae's, other things being equal.

Fannie Mae

The Federal National Mortgage Association (Fannie Mae or FNMA) was created by the government in 1938 to buy and sell mortgage loans insured by the FHA/VA programs. Fannie Mae supported the market by purchasing mortgages from lenders and issuing its own corporate debt. In 1968, Ginnie Mae was separated from Fannie Mae which has become a publicly traded corporation with a government charter. Fannie Mae continued to buy FHA/VA loans in 1970 and 1971. In 1972, Fannie began buying conventional mortgages (those not government insured) as well, thus entering in competition with Freddie Mac. Fannie Mae only began issuing MBS in 1981.

Fannie Mae and Freddie Mac products look alike. Both type of pools mainly include conventional single family mortgages and generally they are not assumable. Seasoned mortgages are also allowed in Fannie Mae's. Mortgage rates for loans pooled may have a discrepancy as high as 200 basis points. As with Freddie Mac, Fannie Mae has its own swap program. When securities are rated by agencies, they carry the AAA mark.

Fannie Maes have a 55-day stated delay before the first payment of interest and principal with timely payments the 25th of the month thereafter.

Private MBS

Private MBS are also issued by various financial institutions, homebuilders or private conduits. These include mortgages which do not qualify for pooling by agencies (nonconforming loans) such as Jumbo loans (over FNMA/FHLMC size limit), mobile home loans, and cooperative apartment loans. Thus, they do not carry any government guarantee but they carry a quite good rating of AA or more.

> The first NHA MBS issue took place in January 1987

Contrary to agency pools, there is no limit on issue amounts. Private MBS carry higher yields than agency MBS reflecting the absence of government guarantee and a lower liquidity.

THE CANADIAN MARKET

In 1986, the National Housing Act (NHA) was amended to allow the federal housing agency, Canada Mortgage and Housing Corporation (CMHC), to issue modified mortgage pass-throughs. Contrary to the U.S., funds for mortgage lending purposes were not a problem for short-term loans since the lenders operated nationwide. The main objective of the MBS program was to develop a viable secondary mortgage market.

The first NHA MBS (also called CNMA or Cannie Mae) issue took place in January 1987, but one financial institution had been issuing private MBS for a total of $80 million during the 1985-1987 period. Since then, private MBS have represented not more than one per cent of amounts issued.

Consultations with U.S. MBS agencies led CMHC to design its NHA MBS program with several features similar to GNMA II program. First, most of the time, approved lenders are the issuers of NHA MBS. Second, interest and principal are paid to investors by a Central Paying Agent (CPTA). The first payment is sent to investors 45 days from the date of NHA MBS issue and the 15th of the month until maturity.

Like GNMA II, the NHA MBS program offers several types of pools: single family, multiple family, social housing, and mixed pools. All mortgages must be NHA insured against default. Loans must not be more than six months old (2 years for GNMA II) and the maximum interest rate spread allowed from low to high on individual mortgages in the pool is 100 basis points (zero for GNMA II), and 200 basis points for pools composed exclusively of loans for multiple family and social housing projects (100 for GNMA II).

However, the programs differ significantly in two ways. First, Canadian MBS have much shorter maturities, generally 5 years instead of 15 or 30 years south of the border. As in the U.S., Canadian mortgages have 25 or 30 years as amortization period but they come up for renewal at intervals ranging from 6 months up to 5 years most of the time, depending what term the borrower chooses. However, 10- and 25-year fixed rate mortgages have also been re-introduced over the last two to three years but the demand for such products is low because of a steep yield curve.

Second, Canadian and U.S. prepayments may differ significantly within a same interest rate environment. On the one hand, contrary to the U.S., refinancing costs are very high in Canada. On the other hand, application fees for a mortgage loan are very low in Canada compared to the U.S. Depending on the issuer, MBS cash flow to investors may also include penalty interest associated with prepayments in Canada.

NHA MORTGAGE-BACKED SECURITIES

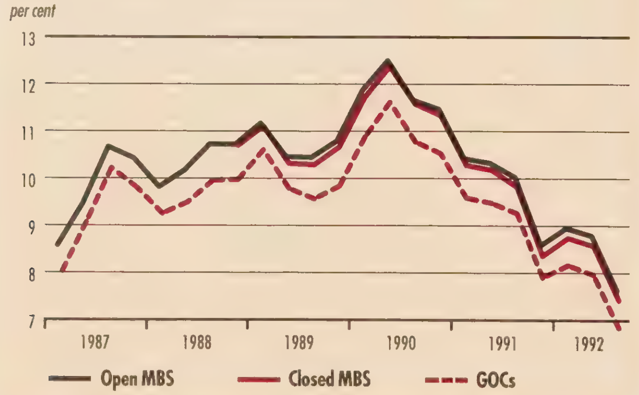
(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

		1990	1991	1992	92Q1	92Q2	92Q3	92Q4
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$000	$4,954.3	$7,603.1	$11,954.8	$8,239.3	$9,114.0	$10,416.1	$11,954.8
	Units	494	771	1,102	827	884	989	1,102
Residential, single	$000	$3,417.7	$4,713.4	$6,969.6	$4,937.5	$5,455.2	$6,069.4	$6,969.6
	Units	308	453	646	482	513	576	646
Residential, multiple	$000	$31.7	$51.4	$85.7	$51.3	$47.2	$101.1	$85.7
	Units	4	6	5	6	5	6	5
Social Housing	$000	$1,488.5	$2,654.1	$4,643.7	$3,036.5	$3,369.5	$3,993.1	$4,643.7
	Units	181	304	435	330	355	393	435
Mixed	$000	$16.3	$184.2	$255.8	$214.0	$242.1	$252.6	$255.8
	Units	1	8	16	9	11	14	16
ISSUES (TOTAL OF PERIOD)								
TOTAL	$000	$2,102.6	$3,187.4	$5,959.5	$910.7	$1,214.2	$1,777.4	$2,057.2
	Units	177	282	388	63	79	118	128
Residential, single	$000	$1,308.9	$1,800.9	$3,744.3	$470.7	$837.6	$1,058.0	$1,377.9
	Units	95	148	243	34	50	76	83
Residential, multiple	$000	$31.8	$20.1	$56.1	$0.0	$0.0	$56.1	$0.0
	Units	4	2	1	0	0	1	0
Social Housing	$000	$745.6	$1,197.3	$2,052.9	$405.0	$343.5	$642.0	$662.4
	Units	77	125	136	28	27	38	43
Mixed	$000	$16.3	$169.1	$106.3	$35.0	$33.1	$21.3	$16.9
	Units	1	7	8	1	2	3	2
YIELDS (5-YEAR MATURITY, %)								
MBS Open		11.88	9.84	8.37	8.95	8.79	7.63	8.13
MBS Closed		11.76	9.67	8.16	8.75	8.58	7.43	7.90
MBS MMUF		—	9.76	8.28	8.87	8.71	7.53	8.00
MBS Hybrid		—	9.85	8.37	8.95	8.79	7.64	8.13
Mortgage rates		13.35	11.13	9.51	10.00	9.93	8.71	9.42
GOCs		10.97	9.07	7.56	8.17	7.97	6.84	7.24
SPREADS OVER GOC (5-YEAR MATURITY, %)								
Open		0.91	0.78	0.82	0.78	0.82	0.80	0.88
Closed		0.80	0.60	0.61	0.58	0.61	0.59	0.66
MMUF		—	0.69	0.72	0.70	0.73	0.69	0.76
Hybrid		—	0.78	0.82	0.78	0.82	0.80	0.88
Mortgage Rates		2.39	2.06	1.96	1.83	1.95	1.87	2.17

Not seasonally adjusted data.

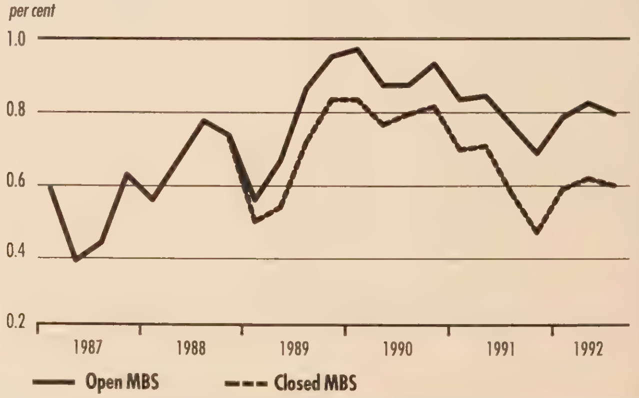
Source: CMHC, Burns Fry Limited *CMHC – MAC 1993*

Selected Interest Rates (5-year maturity)



Source: Burns Fry Limited *CMHC – MAC 1993*

Spreads over GOCs (5-year maturity)



Source: Burns Fry Limited *CMHC – MAC 1993*

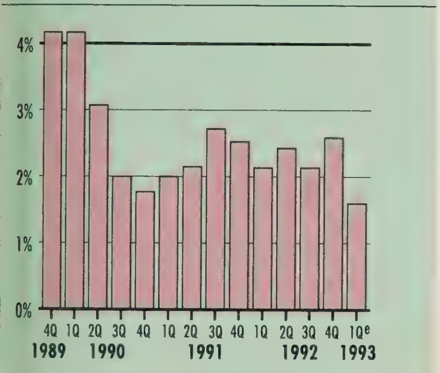
CMHC MORTGAGE MARKET
TRENDS
MARKET ANALYSIS CENTRE APRIL 1993

MORTGAGE LENDING

SHARP SLOWDOWN IN MORTGAGE CREDIT GROWTH

Outstanding mortgage credit, including NHA MBS securities, inched up 1.6 per cent during the first quarter of 1993. This is the weakest advance since the fourth quarter of 1990 when mortgage credit growth slipped to 1.7 per cent.

Residential Mortgage Credit Growth*
(from previous quarter)



*Nominal e: estimate
Source: Bank of Canada CMHC – MAC 1993

Market Share of Residential Mortgage Credit

	1Q92	4Q92	1Q93 e
Banks	43.9%	45.7%	48.0%
Trust	28.3%	25.7%	23.1%
Caisses & Co-op	13.7%	13.8%	13.8%
Life	7.1%	7.5%	7.5%
Pension Funds	3.4%	3.2%	3.2%
Fin. & Loan	3.5%	4.2%	4.4%

e Estimate
Source: Bank of Canada CMHC – MAC 1993

The value of outstanding mortgage credit, including mortgage-backed securities, rose 1.6 per cent during the first quarter to an estimated amount of $291.1 billion. This small increase reflected low levels of activity on housing markets, static prices in most parts of the country, as well as cautious attitudes by prospective mortgagors.

Housing markets suffered a setback during the January-March period. It resulted from the exceptionally harsh winter especially in Atlantic and Central Canada. It also reflected the delayed impact on the new market of a sharp resale market drop at the end of 1992, and the gradual pace of the economy's upturn leaving potential homebuyers very cautious.

Housing starts fell 13.6 per cent to 145,500 units on a seasonally adjusted basis at an annual rate (SAAR), from a level of 168,500 units during the fourth quarter of 1992. Echoing the weakness of the resale market, construction of single-detached dwellings were down 18.2 per cent. On the resale market, sales through the MLS[1] system fell nearly a quarter to a level of 245,600 units on a SAAR basis. The level of new construction was the lowest since the beginning of 1991, while resale activity was the lowest since the end of 1990.

Housing prices reflected the low activity in new construction and in transaction volumes on the existing market. Based on partial information, both the New House Price Index and the average MLS price inched down during the first quarter, following three quarters of increases. Prices changed only marginally in most regions of the country, with the exception of British Columbia, where housing markets continue to perform strongly.

Mortgage credit by type of financial institution was as follows for the first quarter of 1993, based on CMHC's estimates for that quarter and on Bank of Canada data for earlier periods. Chartered banks expanded their market share to 48.0 per cent, up from a revised 45.7 per cent at the end of 1992. This sharp increase during the first quarter of 1993 mainly reflects the inclusion of ManuLife as one of the chartered banks as well as the acquisition of Central Guaranty Trust by the Toronto-Dominion Bank. Offsetting this, the share of the total issued by trust companies dropped from 25.7 per cent to 23.1 per cent. Shares held steady among other financial institutions.

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

THE DEMAND FOR HOME MORTGAGE DEBT IN CANADA: THE NONHOUSING COMPONENT

A study[1] funded by CMHC on the demand for mortgage debt suggests that mortgage credit does not exclusively relate to housing, but also to the acquisition of nonhousing assets. Investments in real estate assets, such as second homes or rental units, and personal businesses are very significant in explaining nonhousing mortgage debt in Canada. The amount devoted to nonhousing purposes is estimated to represent nearly 40 per cent of total residential mortgage debt for young households in Canada.

WHAT IS NONHOUSING MORTGAGE DEMAND?

The supply vs the demand for mortgage debt

Until the late seventies, studies of the residential mortgage market were almost entirely supply side oriented. Under this view, the supply of mortgage funds responds to changes in mortgage interest rates while the demand for mortgage funds is viewed as being stable. This relatively simplistic view probably resulted from demographic factors providing a rather stable potential housing demand. Indeed, as most households were first-time homebuyers during the sixties and the seventies, they probably used the maximum mortgage loans allowed by the lenders.

With changing demographics, analysts began considering the demand for mortgage debt. The first models of demand for mortgage credit supposed that there was a strong linkage between mortgage and housing demand. The author of the study, Professor Lawrence D. Jones, points out that this approach was based on several assumptions: i) owner occupiers are debt dependent; i.e. debt is typically required for owners to be able to own a residence, ii) there are no cost effective alternatives to home mortgage debt for this purpose and iii) home mortgage debt is used solely to finance owner occupied housing.

Mortgage debt for nonhousing assets

However, the facts suggest that mortgage debt is utilized for both housing and nonhousing purposes. Using Statistics Canada's Survey of Consumer Finances (SCF) for 1984, Jones studied the families for which the age of the head was 40 or less. The Survey of Consumer Finances, done once every 7 years, provides information on households' financial position.

Jones found that 78 per cent of owner occupier households had contracted larger mortgage loans than would have been required so as to acquire or keep nonhousing assets (Figure 1). This 'excess' of mortgage debt is the amount above the estimated minimum mortgage loan required. The minimum amount is defined by Jones as being the mortgage loan assuming the household has liquidated all its liquid and real estate assets to pay their principal residence.

Translated in dollars, the nonhousing part of mortgage debt would represent 39.8 per cent of the total mortgage debt of the households in the sample.

Most of the nonhousing mortgage demand comes from households having sufficient wealth to pay off their mortgage loan (the 'wealthy' group). They represent 22.6 per cent of households included in the survey but they account for 56 per cent of the value of all nonhousing mortgage debt.

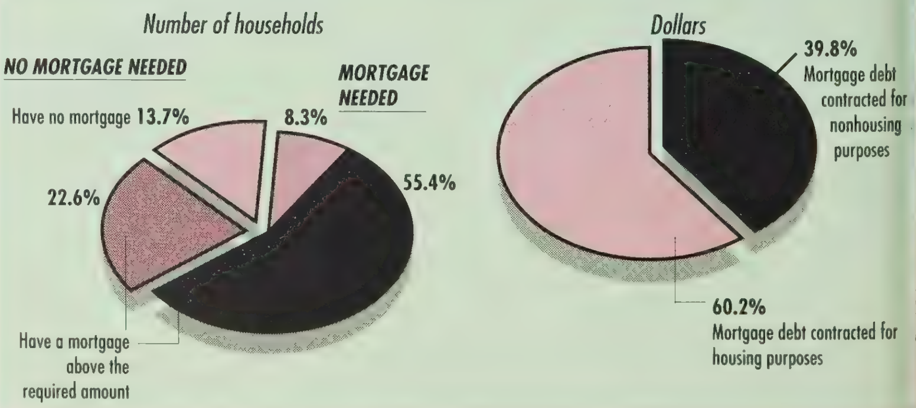
WHAT FACTORS DRIVE NONHOUSING MORTGAGE DEBT?

Having broken down the home mortgage debt into two portions, the demand for housing and the demand for nonhousing assets, Jones proposed to estimate factors contributing to the latter using the 1984 SCF. The sample was restricted to households whose head and spouse, if present, were under the age of 40 to take into account that households should value home mortgage debt at market, not book, value. Also excluded were households whose homes are partially rented or used for business purposes.

Jones concluded that:

- Greater wealth boosts nonhousing mortgage debt. Previous studies not differentiating the housing and nonhousing components of mortgage debt suggested that total mortgage debt was reduced as households get

Figure 1. Distribution of mortgage demand among households



Source: Reproduced from Jones based on Statistics Canada, Survey or Consumer Finances

CMHC – MAC 19

'wealthier'. Under this view, 'wealthier' households did not use mortgage debt as much as others in order to diversify their assets. This view was not confirmed when the effect of housing and nonhousing demands were distinguished.

- Nonmortgage debt did not prove useful in explaining nonhousing mortgage debt. This means that home mortgage debt and personal debt played largely separable financing roles in fulfilling households objectives. Households did not take bigger mortgages in order to finance the purchase of durable goods.

- A clear relationship shown between real estate assets, the marginal tax rate, business related assets and home mortgage debt positions suggested that home mortgage debt was primarily used to finance assets with tax shelter characteristics and assets which complement human capital skills possessed by household members.

Figure 2 shows that holdings of nonhousing assets by mortgagors were substantial in 1984. Over 97 per cent of households in the SCF had motor vehicles and 43.7 per cent had financial assets. About 13 per cent of households had investments in real estate or in a second home, roughly the same as for business related assets.

- Risk aversion proxied by the age of household head, marriage and the number of dependents proved to reduce households' nonhousing mortgage demand, everything else being equal. However, the positive relationship between nonhousing mortgage debt and net wealth mentioned above suggests that the latter factor reduced household risk aversion.

Comparisons with the U.S.

Using the 1983 U.S. SCF, Jones estimated that nonhousing mortgage debt demand represented roughly 45-50 per cent of total mortgage credit in comparison with 40 per cent in Canada. This difference was not as great as could have been anticipated given the more liberal rules regarding the tax deductibility of home mortgage interest in the U.S.

The demand for assets such as real estate and business related assets appeared important in the U.S. but, surprisingly, to a lesser extent than in Canada. This may be the result of differences in the two tax systems or of the fact that the U.S. survey allowed for the inclusion of a more complete set of data. For example, variables such as expected house appreciation or households' subjective attitudes toward liquidity provided useful information to explain household debt demand behaviour.

The adjustment of home mortgage debt over time

Using the 1983 and 1986 U.S. SCF for the same households residing in the same housing unit, Jones found that the net change in excess positions provided support for findings obtained from the cross-section analysis. Nonhousing mortgage debt demand appeared to derive in a significant way from the demand for investment in real estate and business assets.

A lack of good quality data did not allow the validation of findings obtained from cross-sectional data for Canada.

GENERAL REMARKS

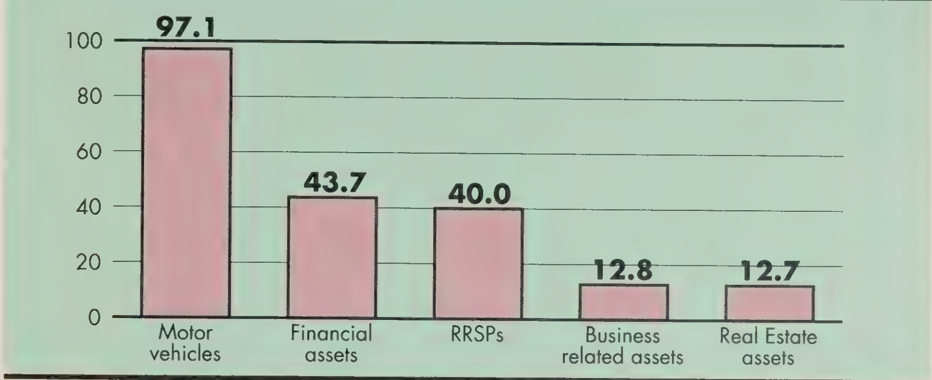
The study's results imply that programs to reduce mortgage costs increase both the effective demand for housing and nonhousing assets since roughly 40 per cent of mortgage debt is financing nonhousing assets.

Further research is needed to determine if nonhousing mortgage debt is concentrated in the first-time or the move-up buyers group. Differentiating NHA insured loans and conventional mortgage loans would be another alternative to test the above findings.

The need to explicitly take renovation spending into consideration could also alter the findings. Renovations have been growing to such an extent that they are now as important as spending on new residential construction. It is not clear whether price evaluations contained in the SCF have always been adjusted for house improvements at the time the survey was done.

Possibilities to validate or invalidate previous findings with more refined household groups seem limited without major improvements to existing surveys.

Figure 2. Households reporting assets of different types



Source: Reproduced from Jones, p.47, based on Statistics Canada, Survey of Consumer Finances (1984)

CMHC – MAC 1993

1Jones, Lawrence D., *Determinants of the Demand for Home Mortgage Debt in Canada and the United States, Urban Land Economics, Faculty of Commerce and Business Administration, The University of British Columbia, CMHC CR File 6585/J15-2, (Dec. 1991). For those interested in obtaining a copy, please contact the Canadian Housing Information Centre at (613) 748-2241.*

**THE VIEWS EXPRESSED ARE THOSE OF THE AUTHOR AND DO NOT REPRESENT THE OFFICIAL VIEWS OF CANADA MORTGAGE AND HOUSING CORPORATION*

INDICATORS OF MORTGAGE LENDING ACTIVITY

Mortgage Credit Outstanding[1] (in millions of dollars)

	1991	1992	1993[2]	92Q2	92Q3	92Q4	93Q1[e]
TOTAL	251,691	276,422	21,099	273,177	279,163	286,468	291,099
% change	9.0	9.8	9.1	2.4	2.2	2.6	1.6
Banks	108,770	123,570	139,711	120,998	125,212	130,870	139,711
Trust Co.	75,125	74,636	67,273	75,188	74,132	73,614	67,273
Caisses & CO-OP	33,386	38,107	40,298	37,735	38,703	39,437	40,298
Life Ins. Co.	17,894	20,264	21,842	19,712	20,815	21,541	21,842
Pension Funds	8,692	9,064	9,212	9,046	9,015	9,111	9,212
Fin. & Loan	7,824	10,781	12,763	10,497	11,287	11,894	12,763

(1) Seasonally Adjusted Data (2) Year to date (e) Estimate

Source: Bank of Canada *CMHC – MAC 1993*

NHA and Conventional Loans Approved[1]

		1991	1992[2]	91Q4	92Q1	92Q2	92Q3	92Q4
TOTAL	$ millions	70,059	83,295	16,255	19,934	21,056	20,988	21,317
	Units	962,356	1,052,574	218,793	257,050	270,294	262,522	262,708
NHA	$ millions	15,370	23,208	4,133	6,083	5,977	5,969	5,179
	Units	83,314	255,730	47,167	66,454	66,309	65,702	57,265
Conventional	$ millions	54,689	60,087	12,122	13,851	15,079	15,019	16,138
	Units	779,042	796,844	171,626	190,596	203,985	196,820	205,443
By Type of Lender								
Banks	$ millions	38,213	50,483	9,138	11,013	12,594	12,766	14,110
	Units	473,868	589,507	110,286	131,278	151,177	147,816	159,236
Trust Co.	$ millions	15,692	17,372	3,553	4,530	4,341	4,694	3,807
	Units	237,216	239,910	50,970	63,007	60,528	65,011	51,364
Life Ins. Co.	$ millions	5,044	4,657	1,217	1,799	1,106	803	949
	Units	94,333	77,875	20,927	30,399	17,048	13,707	16,721
Others	$ millions	11,110	10,783	2,347	2,592	3,015	2,725	2,451
	Units	156,939	145,282	36,610	32,366	41,541	35,988	35,387

(1) Not Seasonally Adjusted at Annual Rate (2) Year to date

Source: CMHC *CMHC – MAC 1993*

Mortgage Rates (Average of period)

	1991	1992	1993[1]	92Q1	92Q2	92Q3	92Q4	93Q1
1-Year Mortgage Rate	10.08	7.87	7.55	8.67	8.17	6.50	8.15	7.55
3-Year Mortgage Rate	10.90	8.95	8.55	9.58	9.42	8.00	8.82	8.55
5-Year Mortgage Rate	11.13	9.51	9.32	10.00	9.93	8.71	9.42	9.32

(1) Year to date

Source: Bank of Canada, CMHC *CMHC – MAC 1993*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Marc Pellerin, Capital Markets Economist, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Paul Poliquin, Director, MBS Centre, CMHC, Toronto Tel.: (416) 495-2199.

Mortgage Market Trends is a quarterly publication. Enquiries regarding subscription should be directed to:
Canada Communication Group-Publishing, Ottawa, Canada K1A 0S9. Tel.: (819) 956-4802; Fax: (819) 994-1498.

Annual subscription (4 issues) $44. + GST – Catalogue No. NH12-8E.
Single issue $11. + GST – Catalogue No. NH12-8-1993-2E.

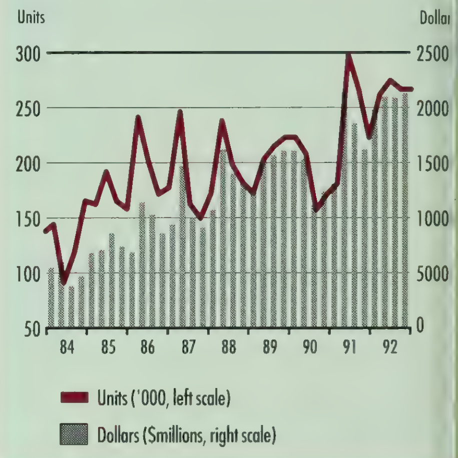
Cette publication est aussi disponible en français sous le titre SCHL – Tendances du marché hypothécaire – LNH 6109 2T/93

ISSN 1188-4215
Printed in Canada

Residential Mortgage Credit Growth
(in per cent)

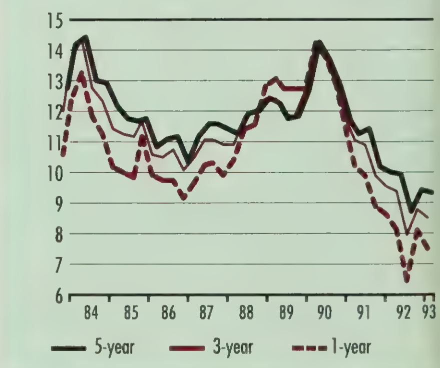
Source: Bank of Canada; CMHC *CMHC – MAC 199*

NHA and Conventional Approvals



Source: CMHC *CMHC – MAC 199*

Mortgage Rates *(in per cent)*



Source: Bank of Canada *CMHC – MAC 19*

NHA Mortgage-Backed Securities First Quarter Issues
January 1993 to March 1993

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: January 1993						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96406848	TORONTO-DOMINION BANK	2,383,468.56	8.375	November 01, 2002	9.78	17.92
96407051	ROYAL TRUST COMPANY	50,000,510.96	7.750	December 01, 1997	8.45	23.92
96407077	TORONTO-DOMINION BANK	2,601,357.67	8.375	December 01, 2002	9.84	17.92
96407093	ROYAL TRUST COMPANY	50,000,453.04	7.750	December 01, 1997	8.45	23.92
96407101	VANCOUVER CITY SAVINGS C.U.	86,957,017.41	7.750	November 01, 1997	8.51	23.67
96407150	FAMILY TRUST CORPORATION	2,891,813.64	8.000	December 01, 1997	8.96	24.67
96407176	LONDON LIFE INSURANCE CO.	3,502,639.30	7.250	January 01, 1996	8.06	23.25
96407192	LONDON LIFE INSURANCE CO.	10,442,357.66	7.750	January 01, 1998	8.58	24.83
96407200	LONDON LIFE INSURANCE CO.	8,905,286.79	7.750	January 01, 1998	8.51	19.42
96407218	LONDON LIFE INSURANCE CO.	2,307,909.98	8.000	January 01, 1998	9.23	18.58
96407226	LONDON LIFE INSURANCE CO.	2,197,344.14	8.500	January 01, 2003	9.81	18.17
96407234	ROYAL TRUST COMPANY	10,001,823.27	8.125	December 01, 1999	9.27	22.92
96407242	FIRSTLINE TRUST COMPANY	11,940,571.64	7.875	February 01, 1998	8.72	17.83
96407267	NATIONAL TRUST COMPANY	51,445,470.25	7.625	December 01, 1997	8.57	24.42
96407333	VANCOUVER CITY SAVINGS C.U.	8,446,998.70	7.750	October 01, 1997	8.58	10.00
96407358	FIRSTLINE TRUST COMPANY	2,381,156.06	7.250	February 01, 1995	8.10	23.83
96407366	FIRSTLINE TRUST COMPANY	2,218,848.59	8.875	January 01, 2018	10.23	18.67
96407374	FIRSTLINE TRUST COMPANY	3,939,156.26	8.875	January 01, 2018	10.10	24.92
96407382	MANUFACTURERS LIFE INS. CO.	2,828,510.59	8.500	March 01, 2003	9.81	17.42
96407390	FIRSTLINE TRUST COMPANY	4,345,657.74	8.500	March 01, 2003	9.85	23.42
96407408	MANUFACTURERS LIFE INS. CO.	3,779,554.91	8.875	July 01, 2005	9.79	24.33
SOCIAL HOUSING POOLS						
99004392	TORONTO-DOMINION BANK	4,167,611.23	7.000	January 01, 1998	8.07	28.00
99004400	METROPOLITAN TRUST COMPANY	2,226,021.79	8.000	January 01, 2003	8.70	25.00
99004442	TORONTO-DOMINION BANK	8,731,465.12	7.625	January 01, 1998	8.41	25.00
99004459	CIBC MORTGAGE CORPORATION	12,245,728.79	7.625	January 01, 1998	8.44	25.17
99004509	FIDUCIE DESJARDINS INC.	2,487,419.00	8.000	January 01, 1998	8.54	35.00
99004517	MARITIME LIFE ASSURANCE CO.	2,139,653.53	6.500	November 01, 1997	7.64	32.75
99004533	BANK OF NOVA SCOTIA	20,607,637.24	7.750	January 01, 2003	8.65	30.00
99004574	FIDUCIE DESJARDINS INC.	5,475,824.62	7.500	January 01, 1998	8.99	25.00
99004582	BANK OF NOVA SCOTIA	54,806,817.68	7.000	January 01, 1998	8.37	33.25
99004608	CIBC MORTGAGE CORPORATION	67,197,636.98	7.625	January 01, 1998	8.45	35.00
99004616	CIBC MORTGAGE CORPORATION	2,322,275.61	6.875	January 01, 1996	8.03	34.92
99004624	FIRSTLINE TRUST COMPANY	17,014,572.48	7.750	January 01, 1998	8.36	35.00
MONTH OF ISSUE: February 1993						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96406996	BANQUE NATIONALE DU CANADA	46,201,412.44	7.500	November 01, 1997	8.63	22.92
96407002	BANQUE NATIONALE DU CANADA	26,828,027.81	7.625	October 01, 1997	8.96	16.58
96407010	BANQUE NATIONALE DU CANADA	20,504,757.15	7.625	October 01, 1997	8.99	12.75
96407028	BANQUE NATIONALE DU CANADA	31,021,067.51	7.625	October 01, 1997	8.85	9.75
96407036	BANQUE NATIONALE DU CANADA	59,979,424.62	7.625	October 01, 1997	8.90	22.00
96407259	PEOPLES TRUST COMPANY	3,026,429.92	7.625	October 01, 1997	8.63	24.42
96407341	ROYAL TRUST COMPANY	50,002,729.41	7.875	January 01, 1998	8.87	23.50
96407424	LONDON LIFE INSURANCE CO.	23,301,787.49	7.875	February 01, 1998	8.70	24.75
96407457	LONDON LIFE INSURANCE CO.	2,111,987.44	8.375	December 01, 1999	9.31	22.75
96407465	LONDON LIFE INSURANCE CO.	2,217,148.56	8.625	December 01, 2002	9.79	24.33
96407473	MONTREAL TRUST COMPANY OF CAN.	24,843,419.54	8.000	February 01, 1998	8.71	24.17
96407507	HOUSEHOLD TRUST COMPANY	3,282,042.55	8.000	January 01, 1998	9.09	24.92
96407515	MANUFACTURERS LIFE INS. CO.	3,027,062.29	7.000	March 01, 1996	8.35	24.58
96407523	FIRSTLINE TRUST COMPANY	2,016,224.70	7.250	March 01, 1995	8.54	20.50
96407531	FIRSTLINE TRUST COMPANY	11,977,305.42	7.625	April 01, 1998	8.67	23.00
96407549	SUN LIFE TRUST COMPANY	11,002,654.42	7.875	January 01, 1998	9.14	24.75
96407556	FIRSTLINE TRUST COMPANY	7,371,928.87	7.625	April 01, 1996	8.72	22.58
96407564	FIRSTLINE TRUST COMPANY	18,688,657.29	8.000	April 01, 1998	9.08	23.83
96407572	FIRSTLINE TRUST COMPANY	2,693,725.23	8.750	March 01, 2003	9.72	22.75
96407580	FIRSTLINE TRUST COMPANY	2,369,204.37	8.375	April 01, 2003	9.66	18.50
96407598	FIRSTLINE TRUST COMPANY	12,449,101.31	8.000	April 01, 1998	9.05	18.58
96407606	FAMILY TRUST CORPORATION	4,723,517.50	7.875	February 01, 1998	8.85	24.75
96407630	FAMILY TRUST CORPORATION	2,081,095.12	7.625	January 01, 1998	8.54	18.67
96407648	FAMILY TRUST CORPORATION	2,771,318.45	7.625	February 01, 1998	8.55	19.25
96407655	FIRSTLINE TRUST COMPANY	14,947,708.64	8.125	February 01, 2000	9.36	24.50
96407671	FIRSTLINE TRUST COMPANY	2,169,503.11	7.250	April 01, 1996	8.62	17.17
96407689	MANUFACTURERS LIFE INS. CO.	10,941,845.48	7.625	February 01, 1998	8.43	23.42
96407697	FIRSTLINE TRUST COMPANY	13,980,654.89	7.625	March 01, 1998	8.99	23.92
96407713	HOUSEHOLD TRUST COMPANY	3,222,543.63	8.000	March 01, 1998	9.28	25.00

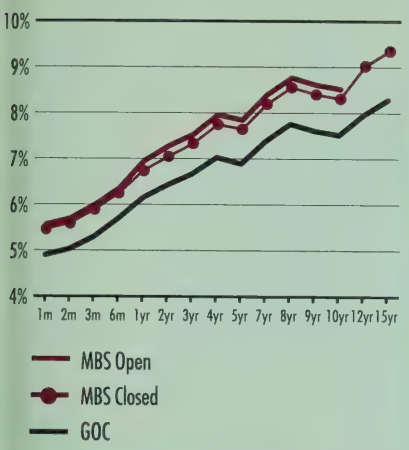
POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600077	PEOPLES TRUST COMPANY	24,438,285.23	7.750	February 01, 1998	8.70	25.75
SOCIAL HOUSING POOLS						
99004541	TORONTO-DOMINION BANK	2,839,938.93	7.625	February 01, 1998	8.45	22.92
99004558	METROPOLITAN TRUST COMPANY	4,478,578.23	7.875	February 01, 1998	8.63	25.33
99004590	FIDUCIE DESJARDINS INC.	4,898,352.00	7.500	February 01, 1998	8.16	35.00
99004657	METROPOLITAN TRUST COMPANY	9,371,648.51	7.500	February 01, 1998	8.31	30.00
99004673	VANCOUVER CITY SAVINGS C.U.	2,447,166.20	7.250	February 01, 1998	8.37	25.00
99004681	TORONTO-DOMINION BANK	21,667,300.00	7.750	February 01, 1998	8.33	35.00
99004707	ROYAL BANK OF CANADA	6,687,282.46	7.250	February 01, 1998	8.09	29.67
99004715	CIBC MORTGAGE CORPORATION	38,338,748.44	7.500	February 01, 1998	8.32	34.92
99004723	BANK OF NOVA SCOTIA	4,540,190.96	7.000	February 01, 1998	8.49	23.08
99004731	BANK OF NOVA SCOTIA	48,983,883.72	7.000	February 01, 1998	8.39	34.17
99004772	FIRSTLINE TRUST COMPANY	31,992,356.00	7.750	February 01, 1998	8.29	35.00
MONTH OF ISSUE: March 1993						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96407184	LONDON LIFE INSURANCE CO.	9,252,746.22	7.375	March 01, 1997	8.29	23.00
96407275	BANQUE NATIONALE DU CANADA	7,194,624.66	7.625	October 01, 1997	9.93	12.67
96407283	BANQUE NATIONALE DU CANADA	8,165,545.57	7.625	October 01, 1997	9.94	16.83
96407291	BANQUE NATIONALE DU CANADA	10,502,072.40	7.625	October 01, 1997	9.91	21.75
96407309	BANQUE NATIONALE DU CANADA	13,382,548.52	7.625	December 01, 1997	8.81	12.58
96407317	BANQUE NATIONALE DU CANADA	20,749,073.54	7.625	November 01, 1997	8.69	15.67
96407325	BANQUE NATIONALE DU CANADA	64,497,781.52	7.625	December 01, 1997	8.75	22.83
96407432	LONDON LIFE INSURANCE CO.	32,146,366.88	7.750	March 01, 1998	8.79	21.58
96407440	LONDON LIFE INSURANCE CO.	3,266,002.52	7.750	March 01, 1998	8.78	13.92
96407614	PEOPLES TRUST COMPANY	3,505,785.65	7.750	March 01, 1998	9.01	24.00
96407622	NATIONAL TRUST COMPANY	23,035,400.00	7.625	December 01, 1997	8.66	24.67
96407663	PACIFIC COAST SAVINGS CREDIT U	10,926,276.95	7.500	November 01, 1997	8.56	22.25
96407705	FAMILY TRUST CORPORATION	2,843,637.11	7.500	January 01, 1998	8.39	24.25
96407721	VANCOUVER CITY SAVINGS C.U.	20,749,879.18	7.250	December 01, 1997	8.55	15.67
96407739	VANCOUVER CITY SAVINGS C.U.	61,419,064.17	7.250	January 01, 1998	8.61	24.00
96407747	TORONTO-DOMINION BANK	2,092,607.47	8.000	February 01, 2003	9.92	9.83
96407754	FIRSTLINE TRUST COMPANY	2,075,846.25	8.125	April 01, 2003	9.89	18.33
96407762	FIRSTLINE TRUST COMPANY	2,195,262.25	8.125	April 01, 2003	9.92	24.83
96407770	HOUSEHOLD TRUST COMPANY	2,094,187.80	7.625	March 01, 1998	9.21	24.92
96407788	HOUSEHOLD TRUST COMPANY	6,844,704.91	7.500	December 01, 1997	8.55	24.67
96407796	FAMILY TRUST CORPORATION	4,415,709.24	7.250	March 01, 1998	9.00	24.08
96407804	FIRSTLINE TRUST COMPANY	2,479,427.98	7.875	May 01, 2003	9.86	23.92
96407812	FIRSTLINE TRUST COMPANY	2,088,492.00	7.875	May 01, 2003	9.70	17.75
96407820	FIRSTLINE TRUST COMPANY	3,320,681.76	7.125	May 01, 1996	8.80	2.00
96407879	FIRSTLINE TRUST COMPANY	6,812,196.82	7.500	February 01, 1998	8.99	23.50
96407887	FIRSTLINE TRUST COMPANY	10,937,647.96	7.500	February 01, 1998	9.35	23.58
96407895	FIRSTLINE TRUST COMPANY	2,104,931.19	8.000	March 01, 2000	9.46	17.92
96407903	FIRSTLINE TRUST COMPANY	7,864,026.21	7.875	February 01, 2000	8.72	23.83
96407911	FIRSTLINE TRUST COMPANY	18,009,733.54	7.750	March 01, 2000	8.69	23.58
96407960	FIRSTLINE TRUST COMPANY	2,542,752.68	7.875	May 01, 2000	9.53	19.58
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500178	FIRSTLINE TRUST COMPANY	11,551,495.95	7.500	November 01, 1997	8.90	23.25
NHA-INSURED MARKET RESIDENTIAL POOLS (MUTIPLE UNITS)						
96600085	CIBC MORTGAGE CORPORATION	133,368,027.00	9.125	March 01, 2013	9.81	28.25
SOCIAL HOUSING POOLS						
99004632	TORONTO-DOMINION BANK	2,412,245.82	7.500	March 01, 1998	8.48	30.17
99004640	CIBC MORTGAGE CORPORATION	5,991,726.94	8.250	March 01, 2003	8.82	2.08
99004665	CIBC MORTGAGE CORPORATION	5,431,467.70	7.500	March 01, 1998	8.41	24.25
99004699	METROPOLITAN TRUST COMPANY	4,691,922.52	7.500	March 01, 1998	8.31	26.58
99004749	BANK OF NOVA SCOTIA	62,082,285.82	6.000	March 01, 1996	7.73	32.25
99004756	FIDUCIE DESJARDINS INC.	4,197,873.00	7.750	March 01, 1998	8.30	34.08
99004764	MARITIME LIFE ASSURANCE CO.	5,014,315.38	6.750	March 01, 1998	8.23	19.33
99004806	VANCOUVER CITY SAVINGS C.U.	8,183,557.99	7.000	March 01, 1998	8.22	25.00
99004830	CIBC MORTGAGE CORPORATION	5,427,805.72	6.500	March 01, 1996	7.67	35.00
99004848	CIBC MORTGAGE CORPORATION	30,922,566.00	7.000	March 01, 1998	7.79	35.00
99004863	BANK OF NOVA SCOTIA	55,381,358.81	6.875	March 01, 1998	7.80	34.58
99004871	FIRSTLINE TRUST COMPANY	66,434,142.34	7.000	March 01, 1998	7.75	35.00

NHA MORTGAGE-BACKED SECURITIES

NEW ISSUES OF NHA MBS REMAINED HIGH DURING THE FIRST QUARTER OF 1993

Approved issuers were responsible for issuing 118 new pools of NHA Mortgage-Backed Securities (MBS) totalling $1,912.0 million during the first quarter of 1993. This compares with 128 new issues for a total of $2,057.2 million during the fourth quarter of 1992. Reflecting the growing NHA MBS market, one issuer introduced a new type of derivative MBS in April which is similar to the Collateralized Mortgage Obligations (CMOs) offered in the U.S.

NHA Mortgage-Backed Securities Yield Analysis – *March 31, 1993**



* Bid Side
Source: Burns Fry Limited
CMHC – MAC 1993

NHA Mortgage-Backed Securities Yield Analysis – *Market at 2:30 p.m. April 23, 1993**

GOC description: Coupon Rate	Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
7.00%	03/95	Open	63	6.92%
6.00%	02/96	Open	69	7.23%
7.50%	07/97	Open	76	7.60%
7.50%	07/97	Closed	63	7.47%
6.25%	02/98	Open	82	7.56%
6.25%	02/98	Closed	65	7.39%
7.25%	06/03	Open	78	8.10%

* Bid Side
Source: Telerate; average for MBS traders
CMHC – MAC 1993

The strong first quarter numbers were largely the result of issues totalling $1,110.8 million for residential prepayable (Open) pools. Social housing pools (non-prepayable or Closed pools) accounted for $631.8 million during the same period, while residential multiple units and a mixture of the above pools represented the balance of issues.

Two factors contributed to maintain new NHA MBS at high levels during the first quarter in spite of sluggish housing activity (see the article on page 1). First, NHA MBS continued to be a relatively inexpensive source of funds for lenders as the spread between five-year mortgage rates and five-year government of Canada Bonds (GOCs) increased to 231 basis points during the first quarter compared to 217 during the preceding quarter and to 185 basis points for the first three quarters of 1992. Rising spreads between mortgage rates and GOCs tend to boost lenders' profitability since MBS yields move more or less in tandem with GOCs.

Second, refinancing activities remained high for NHA MBS pools issued in 1990 and 1991 as current mortgage rates are much lower currently than they were two years ago.

The relatively large volume of new MBS issues on capital markets contributed to maintain MBS yields high in comparison with GOC yields. The spreads between NHA MBS and GOC yields for the five-year maturity widened by 3 basis points to 69 basis points during the first quarter compared to 60 basis points observed during the first three quarters of 1992. Open MBS yields stood 90 basis points above the yield on GOCs for five-year maturities. This compares with 78 basis points observed one year ago.

The need for derivative MBS products offering more predictable cash flows for MBS investors has emerged over the last two years in Canada due to a growing NHA MBS market and rising prepayments associated with the decline in interest rates. One lender issued a security worth $350 million by merging 11 NHA MBS open pools with a five-year maturity. The placement is divided into three securities: fast pay certificates (FPCs), slow pay certificates (SPCs) and residual pay certificates (RPCs). About half of the placement is devoted for FPCs which includes principal payments (both the scheduled and the unscheduled) plus interest payments at the FPC coupon rate. Investors wanting more cash flow predictability will opt for SPCs which represent about the other half of the private placement. SPCs provide the investors interest payments only at the SPC coupon rate. RPCs, which represent a small part of the overall deal, arise because coupons on the existing MBS are above the coupons on FPCs and SPCs. That interest rate differential flows to the RPCs holders. The amount received monthly is variable and payments are smaller the faster prepayments are. In the U.S., these types of devivative MBS, known as collateralized mortgage obligations (CMOs), have been available since the mid-eighties.

COMPARING THE U.S. AND CANADIAN MBS MARKETS

Launched in 1970 in the U.S., mortgage pass-throughs have risen to a leading position on U.S. financial markets. They finance more than 40 per cent of home mortgage outstanding and have contributed to reshaping the home mortgage business. By contrast, the Canadian instrument, created in 1987, is still very young but the amount outstanding is rising rapidly.

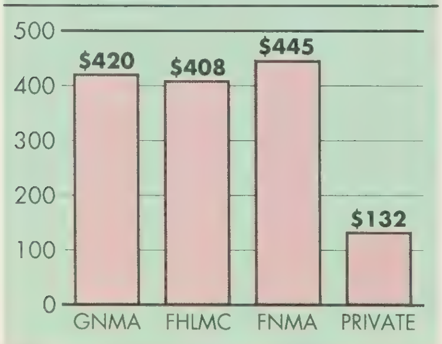
THE U.S. SECONDARY MARKET

At the end of 1992, a total of $1.40 trillion (U.S. dollars) of the U.S. mortgage debt was securitized via mortgage pass-through certificates, also called mortgage-backed securities.

The main players

As discussed in the previous issue of Mortgage Market Trends, the MBS or secondary market relies mainly on three major agencies: the Government National Mortgage Loan Association (Ginnie Mae) which benefits from the guarantee of the U.S. government, and the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Association (Freddie Mac) which are perceived as such by investors because they are regulated by the government. By the mid-1980s, private label MBS also began to appear on the secondary market. They include mortgages that are not meeting the standards of the agencies, mainly because loans exceed the maximum loan amounts that the agencies can securitize. At the end of 1992, the three agencies had outstanding issues of roughly equal size in the $400-$450 billion range each. The outstanding amount under private label MBS reached $132 billion.

U.S. MBS Outstanding by Agency
Year-end 1992 (billions of $)

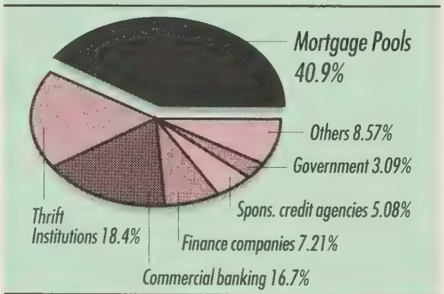


Source: U.S. Federal Reserve Board — CMHC – MAC 1993

At the end of 1992, the value of MBS outstanding represented 41.5 per cent of the total value of $3.39 trillion of home mortgages outstanding for residential single and multi-family mortgages. For the narrower single-family loans, and taking into account only the mortgage pools of the agencies, the percentage reached 40.9 per cent.

Within the home mortgage portfolio, mortgage-backed securities were by far the leading source of financing. The 40.9 per cent share was larger than that of the other two main sources, loans by thrift institutions and by commercial banks, each representing slightly less than 20 per cent of the total. The remaining sources of financing, with a combined share of about 25 per cent included finance companies, governments directly or through sponsored credit agencies (including the MBS issuers), and other sources.

U.S. Home Mortgage Debt
by Source of Financing, 1992



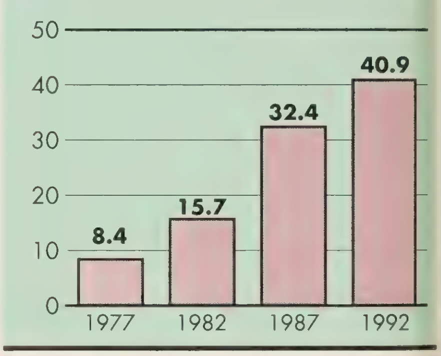
Source: U.S. Federal Reserve Board — CMHC – MAC 1993

Industry trends

Since their creation in 1970, mortgage-backed securities issued by the agencies have gradually risen to their current position. By 1977, they made 8.4 per cent of the total, rising to 15.7 per cent in 1982, to 32.4 per cent in 1987 and finally to 40.9 per cent in 1992.

Factors accounting for the creation and growth of the MBS market were tied to banking legislation, mortgage products and the financial industry. Due to limits placed on interstate banking, there was no guarantee that mortgage finance would be available where it was needed most, in the fast growing regions of the country. Also, given that the 30-year fixed rate mortgage remained the main mortgage product in the U.S., lenders were exposed to a mismatching risk as they were financing long-term mortgages with short term deposits, a situation untenable in an environment of rising inflation and interest rates. Over the years, the difficulties of the thrift institutions and other segments of the banking industry also worked to the advantage of the MBS market.

U.S. MBS Outstanding
as a percent of Home Mortgage Debt



Source: U.S. Federal Reserve Board — CMHC – MAC 1993

The size and liquidity of the secondary market had a profound influence on the structure of the primary market. In particular, it has made possible a growing specialization of the mortgage business into its main component operations: loan origination, financing and servicing. This environment, in particular, has favoured the growth of mortgage bankers who specialize in loan origination and securitize all of those loans. In 1992, mortgage bankers accounted for nearly half of the new mortgage loans originated. Commercial banks and thrift institutions, who still finance a sizable portion of their portfolio, accounted each for about a quarter of the new loan business. Securitization has also been providing

greater prepayment flexibility for homeowners.

Since the mid 1980s, the MBS market has seen the emergence of a range of derivative products that tailor the securities to the special needs of specific classes of investors in order to increase the appeal of the MBS as an investment instrument. These derivatives rearrange the cash flows of regular MBS in their components (collateralized mortgage obligations (CMOs) and mortgage STRIPS) or they combine together many MBS issues(REMICS). In 1992, derivatives accounted for $292 billion or slightly more than half of total MBS issues.

The 1992 experience

While mortgage lenders have about 41 per cent of their residential mortgage loans securitized in total, they resort to MBS for a larger share of their new loans: during 1992, new issues of MBS reached an estimated $545 billion, which amounted to 77.5 per cent of the total of $800 billion for new mortgage loans.

Issuing activity jumped 72 per cent from $317 billion in 1991 to $545 billion. Issues by Fannie Mae rose 72 per cent to $194 billion, while Freddie Mac activity was up 94 per cent to $179 billion. Ginnie Mae issuing activity rose 31 per cent to $82 billion, while issues of privately insured MBS jumped 81 per cent to $89 billion.

Along with new business, there was a refinancing stampede in 1992 as mortgagors took advantage of lower mortgage rates. This refinancing activity is of course tied to the presence of fixed rate mortgages, falling rates and minimal penalties for prepayment or refinancing of a mortgage. About half of the new loans issued in 1992 were for refinancing purposes.

THE CANADIAN SECONDARY MARKET

The first Canadian NHA-MBS was issued in 1987, and the amounts securitized have grown rapidly since then. The total outstanding at the end of 1992 reached $12.0 billion (Canadian dollars), up 57 per cent from $7.6 billion at the end of 1991.

At the end of 1992, home mortgage outstanding had reached $287.5 billion in Canada. The mortgages securitized under the NHA-MBS program accounted for 4.2 per cent of that total. The other sources of financing, excluding the refinancing through the MBS program, were as follows. Chartered banks were the main source of financing with $127.1 billion in outstanding non securitized mortgages, or 44 per cent of the total. Trust companies had issued mortgages for a total $69.1 billion or slightly less than 25 per cent of the market. Caisses populaires and credit unions had aggregate loans of $39.1 billion for 13.6 per cent of the total. This was somewhat larger than the combined share of life insurance companies, pension plans, and finance and loan companies.

In Canada, the mortgage market has not been facing the kind of problems that led to securitization in the U.S. Many financial institutions have nationwide networks. The five-year term loan introduced in the early 1970s and shorter loan terms later on solved many of the problems associated with mismatching risks. Penalties associated with mortgage refinancing have also stemmed refinancing in Canada. Nonetheless, the MBS program was introduced in 1987 to provide a vehicle for the financing of longer term mortgages. The rapid growth shows that the product has been useful for the industry.

While the value of MBS outstanding is still relatively small compared to the overall home mortgage market, it is growing. This share is much larger when related to the five-year-plus segment of the market it was intended to serve. In 1992, NHA MBS issues accounted for 7.2 per cent of mortgage approvals ($83.3 billion), up from 4.6 per cent observed in 1991. Total new MBS issues reached $6.0 billion or 28 per cent of new mortgage loans with 5-year or more fixed interest rates. To the extent that the mortgage market moves toward the longer term end of the maturity spectrum, MBS should become more popular.

NHA MBS ISSUERS FORM ASSOCIATION

The growing importance of the Canadian MBS market has fostered the need for a better and more formal collaboration of all the parties involved in the MBS marketplace. NHA MBS issuers formally established an Association at a meeting chaired by Joe O'Brien, retiring Vice-President at FirstLine Trust, on Thursday March 25. The move to form an association was encouraged and supported by CMHC.

The primary objective of the NHA MBS approved issuers association will be the development and maintenance of strong and liquid national and international secondary markets for Canadian NHA MBS. Through the Association, NHA MBS issuers will also be in a good position to promote and safeguard the NHA MBS program with ongoing relationships with CMHC, Government regulators, investment dealers, and other interested parties, including the public at large.

The Executive Committee will be led by Doug Hughes (London Life) as President, Sandy Halloran (Toronto-Dominion Bank) as Treasurer, and Ed Finch (FirstLine Trust) as Secretary. The remaining members of the Executive Committee elected at the meeting are Rob Horton (Royal Trust), Paul Robillard (Desjardins Trust), Léon Beaudoin (National Bank) and Howard Oakey (Maritime Life).

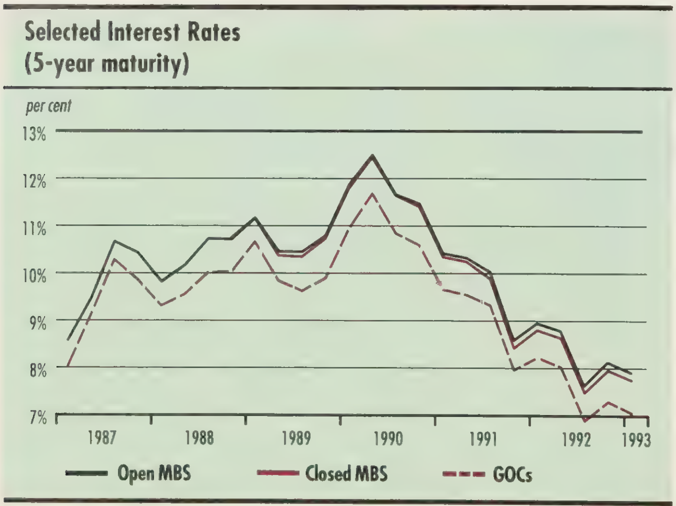
NHA MORTGAGE-BACKED SECURITIES

(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

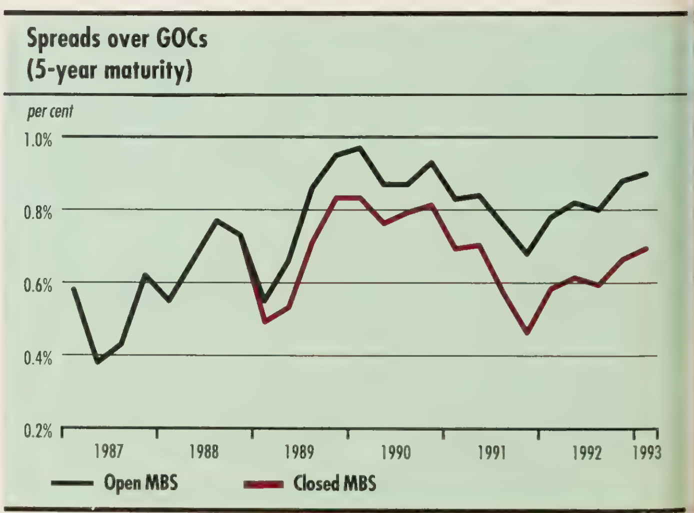
		1991	1992	1993(1)	92Q2	92Q3	92Q4	93Q
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	$7,603.1	$11,954.8	$13,532.4	$9,114.0	$10,416.1	$11,954.8	$13,532.
	Units	771	1,102	1,209	893	989	1,102	1,20
Residential, single	$million	$4,713.4	$6,969.6	$7,803.5	$5,455.2	$6,069.4	$6,969.6	$7,803.
	Units	453	646	717	521	576	646	71
Residential, multiple	$million	$51.4	$85.7	$242.2	$47.2	$101.1	$85.7	$242.
	Units	6	5	6	6	6	5	
Social Housing	$million	$2,654.1	$4,643.7	$5,224.9	$3,369.5	$3,993.1	$4,643.7	$5,224.
	Units	304	435	469	355	393	435	46
Mixed	$million	$184.2	$255.8	$261.9	$242.1	$252.6	$255.8	$261.
	Units	8	16	17	11	14	16	1
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	$3,187.4	$5,959.4	$1,912.0	$1,214.2	$1,777.3	$2,057.2	$1,912.
	Units	282	388	118	79	118	128	11
Residential, single	$million	$1,800.9	$3,744.3	$1,110.8	$837.6	$1,058.0	$1,377.9	$1,110.
	Units	148	243	80	50	76	83	8
Residential, multiple	$million	$20.1	$56.1	$157.8	$0.0	$56.1	$0.0	$157.
	Units	2	1	2	0	1	0	
Social Housing	$million	$1,197.3	$2,052.8	$631.8	$343.5	$642.0	$662.4	$631.
	Units	125	136	35	27	38	43	3
Mixed	$million	$169.1	$106.3	$11.6	$33.1	$21.3	$16.9	$11.
	Units	7	8	1	2	3	2	
YIELDS (5-YEAR MATURITY, %)								
MBS Open		9.84	8.37	7.91	8.79	7.63	8.13	7.9
MBS Closed		9.67	8.16	7.69	8.58	7.43	7.90	7.6
MBS MMUF		9.76	8.28	7.78	8.71	7.53	8.00	7.7
MBS Hybrid		9.85	8.37	7.91	8.79	7.64	8.13	7.9
Mortgage rates		11.13	9.51	9.32	9.93	8.71	9.42	9.3
GOCs		9.07	7.56	7.00	7.97	6.84	7.24	7.0
SPREADS OVER GOC (5-YEAR MATURITY, %)								
Open		0.78	0.82	0.90	0.82	0.80	0.88	0.9
Closed		0.60	0.61	0.69	0.61	0.59	0.66	0.6
MMUF		0.69	0.72	0.77	0.73	0.69	0.76	0.7
Hybrid		0.78	0.82	0.90	0.82	0.80	0.88	0.9
Mortgage Rates		2.06	1.96	2.31	1.95	1.87	2.17	2.3

Not seasonally adjusted data.

(1) Year to date
Source: CMHC, Burns Fry Limited *CMHC – MAC 1993*



Source: Burns Fry Limited *CMHC – MAC 1993*



Source: Burns Fry Limited *CMHC – MAC 1993*

CMHC MORTGAGE MARKET

TRENDS

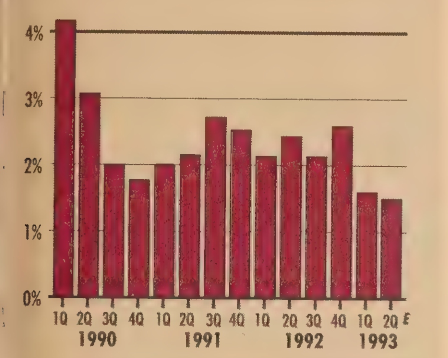
MARKET ANALYSIS CENTRE THIRD QUARTER 1993

MORTGAGE LENDING

MORTGAGE CREDIT UP SLIGHTLY DURING SECOND QUARTER

Outstanding mortgage credit, including NHA-MBS securities, inched up 1.5 per cent during the second quarter of 1993, a pace similar to that of the previous quarter.

Residential Mortgage Credit Growth*
(from previous quarter)



*Nominal E: estimate
Source: Bank of Canada CMHC–MAC 1993

Market Share of Residential Mortgage Credit

	2Q92	1Q93	2Q93E
Banks	44.4%	48.0%	48.2%
Trust	27.5%	23.3%	22.9%
Caisses & Co-op	13.8%	13.8%	13.9%
Life	7.2%	7.3%	7.1%
Pension Funds	3.3%	3.1%	3.1%
Fin. & Loan	3.9%	4.5%	4.9%

E – estimate
Source: Bank of Canada CMHC–MAC 1993

The value of outstanding mortgage credit, including mortgage-backed securities, rose 1.5 per cent during the second quarter to an estimated $295.4 billion. This small increase reflected low levels of activity on housing markets and stable prices in most parts of the country. As well, the relative stability of mortgage rates has dampened refinancing activity.

Housing markets recovered at a different pace from the setback suffered during the January-March period. Sales through the MLS[1] system jumped close to 35 per cent to 335,700 units on a seasonally adjusted basis at an annual rate (SAAR) from a low first quarter level of 248,400 units, thus returning close to the average level that prevailed in 1992. On the new market, however, expectations of a rebound were disappointed with only a partial recovery, as housing starts rose 5.5 per cent to 153,500 units SAAR during the second quarter from 145,500 units in the first quarter.

House prices on a national basis are rising only slowly. In May, the New House Price Index was up 1.2 per cent from its level of a year ago. Over the same interval, the average MLS price was up 1.5 per cent. The national average, however, reflects strong increases in Vancouver as well as further price easing in Toronto.

Mortgage demand was also dampened compared to the levels that prevailed during the previous two years. During that period, mortgage interest rates fell rapidily making refinancing and debt consolidation attractive. Such activity also increased at the end of 1992; at that time, two episodes of turmoil on currency markets pushed rates higher and led consumers to speed up refinancing or house purchases.

Mortgage credit by type of institution changed only marginally for the second quarter of 1993, based on CMHC's estimates for that quarter and on Bank of Canada data for the earlier periods. Chartered banks expanded their market share marginally to 48.2 per cent, up from a revised 48.0 per cent during the first quarter. The share held by trust companies fell to 22.9 per cent from 23.3 per cent. Shares also edged lower at life insurance companies and pension funds, while caisses and co-ops, and finance and loan companies increased their share slightly.

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

MORTGAGE RATE OUTLOOK FOR 1993 AND 1994

The 1991 recession and the low inflation that resulted have brought interest rates down to levels not seen since the beginning of the seventies. Five-year mortgage rates now stand at 8.75 per cent in comparison with 14.25 per cent in April 1990, prior to the recession. This is only slightly higher than the rate of 8.50 per cent for five-year terms offered last September before the turmoil on financial markets caused rates to rise temporarily at the end of 1992. One- and three-year mortgage rates are near to their lowest levels since they were first introduced in 1980.

Low inflation and a sluggish economic recovery will continue to favour declines in interest rates until the end of summer. Specifically, one-year ratescould fall to 6.00 per cent during this period, down as much as 50 basis points from the current level of 6.50 per cent. Three-year mortgage rates could stand around 7.50-7.75 per cent at the end of summer, compared to the 8.25 per cent currently observed in the marketplace. Lenders are also expected to cut five-year mortgage rates in the 8.25-8.50 range during the same period.

Rates are near bottom and are expected to begin rising marginally in the fall and in 1994 as economic activity and credit demand gain momentum. Mortgage rates will likely rise by a quarter percentage point at the end of 1993 and by an additional quarter to one-half percentage point in 1994.

The back-up in rates will be mild compared with past economic recoveries. Several factors point toward such a scenario. First, the high unemployment rate and a sluggish economic recovery should contribute to keep inflation low for at least another year. Secondly, private-sector debt levels remain extremely high and consumers will stay debt-adverse until economic conditions get much better.

CMHC'S FIRST HOME LOAN INSURANCE (FHLI) PROGRAM: ENCOURAGING HOUSING ACTIVITY

CMHC recently conducted a study aimed at assessing the impact of the First Home Loan Insurance program as an instigator of housing activity in Canada. The program was initially introduced in February 1992 to allow first-time home-buyers entry into the housing market with a downpayment as low as 5 per cent. It was targeted at a clientèle that could afford to make the monthly mortgage payments, but had not had the chance to accumulate at least a 10 per cent downpayment.

The results of the study indicate that the program did indeed reach the market initially targeted. Sixty-nine per cent of all respondents that purchased their homes with less than 10 per cent down indicated that they wouldn't have been able to purchase their home without the FHLI program. Eighty per cent of the remaining 31 per cent that could have purchased with a 10 per cent downpayment but met the criteria of the FHLI, indicated that they used the extra funds for home-related improvements, expenses and fees incurred in purchasing the home.

Prior to purchasing their home, 93 per cent of FHLI clients were renting for an average of almost 8 years.

A number of factors were cited as affecting the timing of the home purchase, the most important being mortgage rates, the availability of the FHLI program, prices of homes generally and borrowers' household incomes. Prior to purchasing their home, 93 per cent of FHLI clients were renting for an average of almost 8 years. Twenty-five per cent of FHLI participants had rented for more than 10 years.

The FHLI program participants are early in the family life-cycle stage. Their annual household income is $52,246 compared to $57,405 for clients that purchase with at least a 10 per cent downpayment. Only 15 per cent of them are university educated. Forty per cent of FHLI clients are employed in blue-collar occupations.

Nearly three clients out of four purchased single, fully detached homes. Semi-detached, duplex and triplex homes were a distant second choice among the participants.

The survey was conducted in May 1993 with a sample of 600 CMHC clients who had purchased their homes between May and December 1992. The results of the survey are accurate to within plus or minus 4 per cent, 19 times out of 20.

Author: Christina Haddad,
Senior Marketing Specialist, CMHC

* FOR INFORMATION REGARDING THIS ARTICLE, PLEASE CALL: CHRISTINA HADDAD AT (613) 748-4699

NHA AND CONVENTIONAL MORTGAGE PERFORMANCE

After a decline in mortgage loan approvals in 1990, both the number of units and dollar volume of approvals increased substantially in 1991 and again to a lesser extent in 1992. Although both NHA and conventional approvals were higher, the larger increase was in NHA activity, which grew by over 50 per cent in both years.

The 9.4 per cent growth in loan approvals in 1992 reflects a rise in sales of existing and new homes. Existing sales had a 8.9 per cent increase to 327,865 units. The average price of homes sold did not impact the dollar volume of approvals as it was almost the same as the previous year's average, increasing by only 0.7 per cent to $150,700. Housing starts also grew in 1992 by 7.7 per cent to 168,271 units. While economic activity was slow in recovering, the housing market was stimulated by lower interest rates and improved affordability. This led to the growth in the first-time buyer market.

Table 1. Mortgage Loan Approvals
(percent changes)

	NHA	Conventional	Total
$ Volume			
1990	-11.1%	-6.4%	-7.3%
1991	50.8%	20.8%	26.4%
1992	51.0%	9.9%	18.9%
# Dwelling Units			
1990	-13.6%	-5.1%	-6.8%
1991	33.7%	28.9%	29.8%
1992	39.5%	2.3%	9.4%

Source: Bank of Canada CMHC – MAC 1993

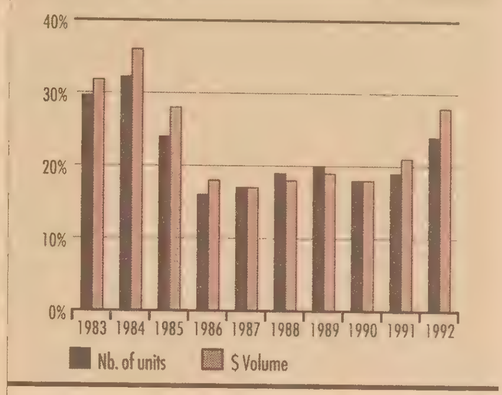
The average value of mortgage loan approvals rose for both conventional and NHA loans in 1992, although the average value of conventional loans was substantially below that of NHA loans. It is difficult to compare the average values of NHA and conventional loans, however, as conventional mortgages include approvals for refinancing for equity take-out. Also, loan to value ratios are much higher for NHA loans. In 1992, 95 per cent lending was instituted, which made NHA loan to value ratios even higher and is the major reason for the rise in NHA loan values.

The NHA share of mortgage business increased in 1991 and 1992 in both units and dollar volumes. NHA share had remained fairly constant from 1986 to 1990 at around 19 per cent. Move-up buyers dominated the stage during this period as first-time buyers requiring NHA insurance were locked out of many markets because of high home prices and high interest rates. As homes became more affordable over the past couple of years, first-time buyers moved back into the market.

The large increase in NHA market share in 1992 relates to 95 per cent lending. In 1992, NHA mortgages made up 24 per cent of the units and 28 per cent of the dollar volume. The higher share for value is due to the higher average loan amounts for NHA.

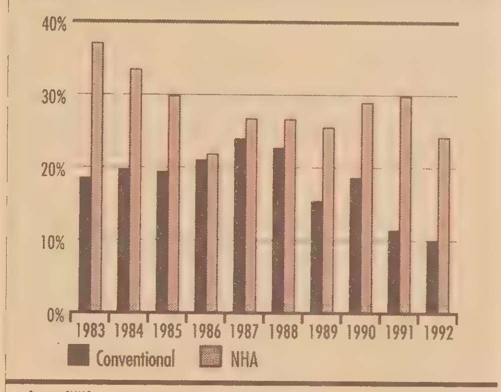
Both NHA and conventional lending is concentrated in existing housing. This is reasonable as existing sales make up approximately two-thirds of activity. Only 10 per cent of conventional lending in 1992 was for new homes. For NHA, 24 per cent was for new homes. New housing financing takes a larger proportion of NHA loans than of conventional loans because new multiple housing accounts for a greater proportion of NHA activity.

Market Share of NHA



Source: CMHC CMHC – MAC 1993

Share of New Units (NHA vs Conventional)



Source: CMHC CMHC – MAC 1993

Table 2. Average Size of Loans Approved per Unit

	NHA	Conventional	Total
1989	$72,219	$75,981	$75,230
1990	$74,317	$74,901	$74,793
1991	$83,845	$70,200	$72,799
1992	$90,752	$75,406	$79,135

Source: CMHC CMHC – MAC 1993

Table 3. Share of NHA & Conventional in Total Mortgage

	Number of Units		$ Volume	
	NHA	Conventional	NHA	Conventional
1981-90	22%	78%	22%	78%
1981-85	29%	71%	31%	69%
1986-90	18%	82%	18%	82%
1991	19%	81%	22%	78%
1992	24%	76%	28%	72%

Source: CMHC CMHC – MAC 1993

INDICATORS OF MORTGAGE LENDING ACTIVITY

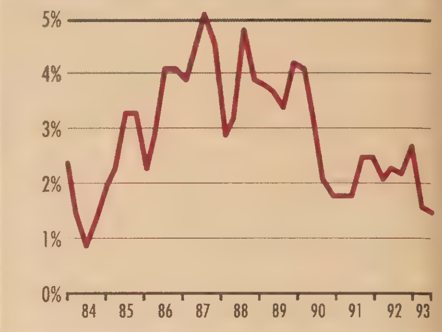
Mortgage Credit Outstanding[1] (in millions of dollars)

	1991	1992	1993[2]	92Q3	92Q4	93Q1	93Q2e
TOTAL	251,713	276,141	295,423	278,932	286,515	291,129	295,423
% change	8.6	9.7	7.0	2.3	2.7	1.6	1.5
Banks	108,770	123,570	142,256	125,212	130,870	139,709	142,256
Trust Co.	75,283	74,513	67,510	74,037	73,805	67,741	67,510
Caisses & CO-OP	33,386	38,121	41,188	38,703	39,457	40,253	41,188
Life Ins. Co.	17,692	20,002	21,066	20,473	21,115	21,246	21,066
Pension Funds	8,771	8,992	9,071	8,993	9,045	9,066	9,071
Fin. & Loan	7,811	10,943	14,332	11,515	12,223	13,113	14,332

(1) Seasonally Adjusted Data (2) Cumulative (e) Estimate

Source: Bank of Canada CMHC – MAC 1993

Residential Mortgage Credit Growth
(in per cent)



Source: Bank of Canada; CMHC CMHC – MAC 1993

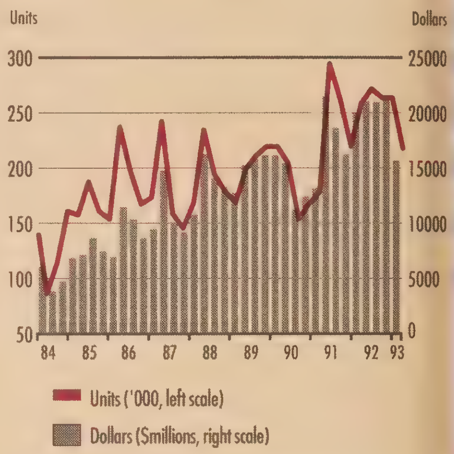
NHA and Conventional Loans Approved[1]

		1991	1992	92Q1	92Q2	92Q3	92Q4	93Q1
TOTAL	$ millions	70,059	83,295	19,934	21,056	20,988	21,317	15,670
	Units	962,356	1,052,574	257,050	270,294	262,522	262,708	216,365
NHA	$ millions	15,370	23,208	6,083	5,977	5,969	5,179	5,031
	Units	83,314	255,730	66,454	66,309	65,702	57,265	57,682
Conventional	$ millions	54,689	60,087	13,851	15,079	15,019	16,138	10,639
	Units	779,042	796,844	190,596	203,985	196,820	205,443	158,683
By Type of Lender								
Banks	$ millions	38,213	50,483	11,013	12,594	12,766	14,110	10,097
	Units	473,868	589,507	131,278	151,177	147,816	159,236	113,980
Trust Co.	$ millions	15,692	17,372	4,530	4,341	4,694	3,807	2,587
	Units	237,216	239,910	63,007	60,528	65,011	51,364	33,425
Life Ins. Co.	$ millions	5,044	4,657	1,799	1,106	803	949	784
	Units	94,333	77,875	30,399	17,048	13,707	16,721	13,608
Others	$ millions	11,110	10,783	2,592	3,015	2,725	2,451	2,202
	Units	156,939	145,282	32,366	41,541	35,988	35,387	55,352

(1) Not Seasonally Adjusted at Annual Rate

Source: CMHC CMHC – MAC 1993

NHA and Conventional Approvals



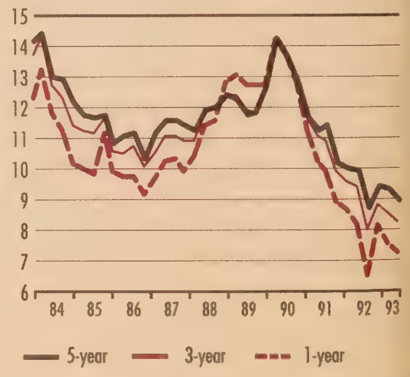
Source: CMHC CMHC – MAC 1993

Mortgage Rates (Average of period)

	1991	1992	1993	92Q2	92Q3	92Q4	93Q1	93Q2
1-Year Mortgage Rate	10.08	7.87	7.40	8.17	6.50	8.15	7.55	7.25
3-Year Mortgage Rate	10.90	8.95	8.40	9.42	8.00	8.82	8.55	8.25
5-Year Mortgage Rate	11.13	9.51	9.14	9.93	8.71	9.42	9.32	8.95

Sources: Bank of Canada, CMHC CMHC – MAC 1993

Mortgage Rates *(per cent)*



Source: Bank of Canada CMHC – MAC 1993

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Tim Elliot, Acting Capital Markets Economist, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Paul Poliquin, Director, MBS Centre, CMHC, Toronto Tel.: (416) 495-2199.

Mortgage Market Trends is a quarterly publication. Enquiries regarding subscription should be directed to:
Canada Communication Group-Publishing,
Ottawa, Canada K1A 0S9.
Tel.: (819) 956-4802; Fax: (819) 994-1498.

Annual subscription (4 issues) $44. + GST – Catalogue No. NH12-8E.
Single issue $11. + GST – Catalogue No. NH12-8-1993-3E.

Cette publication est aussi disponible en français sous le titre SCHL – Tendances du marché hypothécaire – LNH 6109 3T/93

ISSN 1188-4215
Printed in Canada

CMHC offers a wide range of housing-related information. For details, contact your local CMHC office.

CMHC subscribes to Canada's Green Plan. Quantities of our publications are limited to market demand; updates are produced only when required; and recycled or environmentally friendly stock and environmentally safe inks are used wherever possible.

NHA Mortgage-Backed Securities Second Quarter Issues
April 1993 to June 1993

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: April 1993						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96407416	LONDON LIFE INSURANCE CO.	10,099,155.49	7.625	April 01, 1998	9.11	22.83
96407929	NATIONAL TRUST COMPANY	27,899,441.59	7.375	February 01, 1998	8.83	23.92
96407952	TORONTO-DOMINION BANK	2,183,494.05	8.250	March 01, 2003	9.94	23.75
96407986	WESTMINSTER CREDIT UNION	4,992,272.91	7.375	March 01, 1998	8.88	17.58
96407994	WESTMINSTER CREDIT UNION	6,301,914.07	7.375	March 01, 1998	8.73	22.42
96408000	FIRSTLINE TRUST COMPANY	2,454,897.77	6.750	May 01, 1995	8.56	22.92
96408018	FIRSTLINE TRUST COMPANY	2,513,989.39	8.375	April 01, 2018	10.19	18.25
96408042	FIRSTLINE TRUST COMPANY	3,824,820.81	7.000	June 01, 1996	8.54	23.08
96408075	FIRSTLINE TRUST COMPANY	6,004,776.54	7.375	June 01, 1998	9.21	18.67
96408083	FIRSTLINE TRUST COMPANY	9,949,692.90	7.375	January 01, 1998	8.63	23.33
96408091	FIRSTLINE TRUST COMPANY	2,317,520.95	7.375	April 01, 1998	8.96	12.67
96408109	FIRSTLINE TRUST COMPANY	4,019,078.72	7.375	April 01, 1998	8.68	16.75
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600119	FIRSTLINE TRUST COMPANY	39,006,556.10	7.250	April 01, 1998	8.68	26.33
SOCIAL HOUSING POOLS						
99004780	TORONTO-DOMINION BANK	3,832,255.47	7.250	April 01, 1998	8.10	27.67
99004798	TORONTO-DOMINION BANK	8,245,344.98	7.125	April 01, 1998	7.92	27.58
99004814	TORONTO-DOMINION BANK	50,115,280.55	6.375	April 01, 1996	7.33	33.17
99004822	CIBC MORTGAGE CORPORATION	6,146,840.93	7.125	April 01, 1998	7.90	25.00
99004855	FIDUCIE DESJARDINS INC.	4,610,502.00	7.125	April 01, 1998	7.71	35.00
99004939	PEOPLES TRUST COMPANY	2,464,815.99	7.375	February 01, 1998	8.49	33.92
99004954	TORONTO-DOMINION BANK	9,396,773.71	7.125	April 01, 1998	7.78	35.00
99004962	TORONTO-DOMINION BANK	2,418,985.77	7.750	December 01, 1996	9.42	33.67
99004996	BANK OF NOVA SCOTIA	11,490,608.02	6.000	April 01, 1996	7.33	32.42
99005001	BANK OF NOVA SCOTIA	13,797,429.25	6.875	April 01, 1998	7.97	29.75
99005019	BANK OF NOVA SCOTIA	2,798,000.00	6.875	April 01, 1998	7.91	35.00
99005035	CIBC MORTGAGE CORPORATION	12,367,766.00	7.000	April 01, 1998	7.76	35.00
99005050	TORONTO-DOMINION BANK	8,251,459.02	7.125	April 01, 1998	7.82	22.92
99005068	FIRSTLINE TRUST COMPANY	51,879,294.16	7.250	April 01, 1998	7.85	35.00
MONTH OF ISSUE: May 1993						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96407937	PACIFIC COAST SAVINGS C.U.	11,965,120.69	7.250	April 01, 1998	8.70	21.75
96407945	PACIFIC COAST SAVINGS C.U.	2,997,467.09	7.250	March 01, 1998	9.05	18.00
96407978	MACKENZIE TRUST COMPANY	4,376,066.47	7.375	May 01, 1998	9.08	24.50
96408026	LONDON LIFE INSURANCE CO.	10,045,745.36	7.750	May 01, 1998	8.98	18.25
96408034	LONDON LIFE INSURANCE CO.	4,121,163.31	7.125	May 01, 1996	8.48	22.83
96408067	HOUSEHOLD TRUST COMPANY	13,117,824.11	7.375	May 01, 1998	8.99	24.92
96408133	FIRSTLINE TRUST COMPANY	6,539,749.33	8.375	July 01, 2003	9.65	18.75
96408141	FIRSTLINE TRUST COMPANY	2,332,846.85	6.750	June 01, 1995	8.27	22.33
96408158	FIRSTLINE TRUST COMPANY	2,652,139.77	7.000	July 01, 1996	8.40	22.50
96408166	FIRSTLINE TRUST COMPANY	10,285,175.40	8.125	July 01, 2003	9.62	22.67
96408216	FIRSTLINE TRUST COMPANY	15,711,033.34	7.500	February 01, 1998	8.87	22.50
96408224	FIRSTLINE TRUST COMPANY	3,533,730.24	7.500	February 01, 1998	8.97	18.08
96408265	FIRSTLINE TRUST COMPANY	9,544,184.18	7.875	February 01, 2000	8.84	18.92
96408273	FIRSTLINE TRUST COMPANY	3,712,246.21	7.875	February 01, 2000	8.75	15.67
96408281	FIRSTLINE TRUST COMPANY	6,079,516.90	7.875	February 01, 2000	8.73	24.17
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500186	SECURITY HOME MORTGAGE INV.COR	6,637,657.88	7.250	May 01, 1998	9.05	24.42
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600093	PEOPLES TRUST COMPANY	14,813,679.99	7.375	May 01, 1998	8.46	22.50
SOCIAL HOUSING POOLS						
99004525	MARITIME LIFE ASSURANCE CO.	6,641,921.43	6.500	April 01, 1998	7.97	23.67
99004889	MARITIME LIFE ASSURANCE CO.	8,358,054.76	6.500	April 01, 1998	8.15	31.67
99004897	TORONTO-DOMINION BANK	11,406,206.39	7.125	May 01, 1998	7.85	24.50
99004905	TORONTO-DOMINION BANK	2,143,204.33	7.125	May 01, 1998	7.92	24.58
99004913	CIBC MORTGAGE CORPORATION	7,165,164.78	7.000	May 01, 1998	7.84	25.00
99004921	METROPOLITAN TRUST COMPANY	2,241,332.51	6.875	May 01, 1998	7.86	23.75
99004947	TORONTO-DOMINION BANK	50,138,554.54	6.375	May 01, 1996	7.37	2.00
99004970	METROPOLITAN TRUST COMPANY	13,896,802.64	6.625	May 01, 1996	7.27	33.00
99004988	BANK OF NOVA SCOTIA	39,559,002.00	6.000	May 01, 1996	7.32	33.75
99005027	FIDUCIE DESJARDINS INC.	5,105,148.84	7.250	May 01, 1998	7.81	33.92

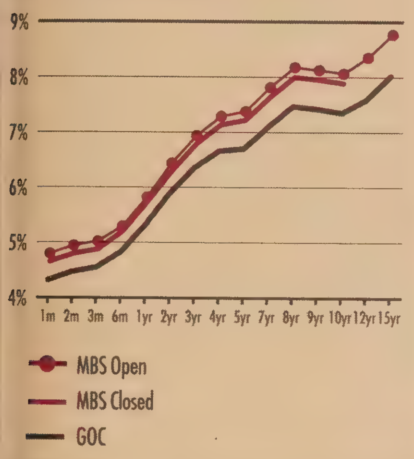
POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
SOCIAL HOUSING POOLS (cont'd)						
99005043	BANQUE NATIONALE DU CANADA	2,459,716.94	7.250	May 01, 1998	7.88	21.75
99005076	TORONTO-DOMINION BANK	9,862,665.35	6.500	May 01, 1996	7.44	30.00
99005084	ROYAL BANK OF CANADA	14,953,795.50	7.375	April 01, 1998	7.94	34.92
99005142	TORONTO-DOMINION BANK	10,638,373.00	7.375	May 01, 1998	8.08	35.00
99005159	BANK OF NOVA SCOTIA	2,485,687.88	6.500	May 01, 1997	7.71	24.83
99005167	BANK OF NOVA SCOTIA	5,700,084.24	6.875	May 01, 1998	7.78	29.17
99005191	CIBC MORTGAGE CORPORATION	24,259,576.00	7.125	May 01, 1998	7.90	35.00
99005209	CIBC MORTGAGE CORPORATION	14,203,384.59	6.375	May 01, 1996	7.62	34.33
99005217	BANK OF NOVA SCOTIA	6,096,314.00	6.875	May 01, 1998	7.98	33.75
99005233	FIRSTLINE TRUST COMPANY	26,989,016.55	7.125	May 01, 1998	7.90	35.00
MONTH OF ISSUE: June 1993						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96407838	BANQUE NATIONALE DU CANADA	21,012,286.94	7.375	February 01, 1998	9.06	23.33
96407846	BANQUE NATIONALE DU CANADA	3,515,409.80	7.250	February 01, 1998	9.10	15.25
96407853	BANQUE NATIONALE DU CANADA	4,188,937.85	7.250	February 01, 1998	9.78	22.83
96407861	BANQUE NATIONALE DU CANADA	30,544,875.00	7.375	January 01, 1998	8.99	23.08
96408117	MACKENZIE TRUST COMPANY	4,975,106.50	7.375	June 01, 1998	8.81	24.83
96408125	PEOPLES TRUST COMPANY	2,540,286.76	7.375	May 01, 1998	8.89	23.50
96408174	BANQUE NATIONALE DU CANADA	18,449,301.78	7.375	March 01, 1998	9.33	23.25
96408182	BANQUE NATIONALE DU CANADA	3,210,370.67	7.250	March 01, 1998	9.33	15.08
96408190	VANCOUVER CITY SAVINGS C.U.	29,651,669.92	7.250	May 01, 1998	9.14	24.00
96408232	LONDON LIFE INSURANCE CO.	24,884,717.09	7.625	June 01, 1998	8.88	22.92
96408299	FAMILY TRUST CORPORATION	3,528,035.60	7.500	June 01, 1998	8.63	24.67
96408307	SUN LIFE TRUST COMPANY	22,005,370.56	7.500	May 01, 1998	8.77	24.50
96408315	HOUSEHOLD TRUST COMPANY	11,208,606.12	7.375	June 01, 1998	8.80	24.67
96408323	FAMILY TRUST CORPORATION	2,367,019.83	7.250	June 01, 1998	8.59	19.33
96408331	FIRSTLINE TRUST COMPANY	7,541,043.24	8.125	August 01, 2003	9.57	18.50
96408349	WESTMINSTER CREDIT UNION	3,284,486.36	7.500	June 01, 1998	8.96	24.08
96408380	FIRSTLINE TRUST COMPANY	2,610,256.53	8.250	August 01, 2003	9.67	14.75
96408398	FIRSTLINE TRUST COMPANY	5,514,194.17	8.250	August 01, 2003	9.53	24.33
96408406	FIRSTLINE TRUST COMPANY	2,630,002.57	8.500	June 01, 2018	10.12	24.92
96408422	HOUSEHOLD TRUST COMPANY	40,138,533.74	7.250	July 01, 1998	9.13	24.67
96408489	FIRSTLINE TRUST COMPANY	4,030,174.02	7.875	March 01, 2000	9.26	18.08
96408497	FIRSTLINE TRUST COMPANY	5,357,158.13	7.875	March 01, 2000	8.97	22.58
96408505	FIRSTLINE TRUST COMPANY	2,062,821.75	7.125	April 15, 1998	8.98	17.50
96408513	FIRSTLINE TRUST COMPANY	19,614,703.39	7.125	March 01, 1998	8.80	23.50
SOCIAL HOUSING POOLS						
99005092	TORONTO-DOMINION BANK	2,065,116.85	6.875	June 01, 1998	7.67	24.75
99005100	TORONTO-DOMINION BANK	2,318,221.06	7.000	June 01, 1998	7.63	18.17
99005118	METROPOLITAN TRUST COMPANY	4,335,090.17	7.000	June 01, 1998	7.90	25.75
99005126	CIBC MORTGAGE CORPORATION	4,522,234.77	6.750	June 01, 1998	7.56	25.00
99005134	CIBC MORTGAGE CORPORATION	4,641,470.29	6.000	June 01, 1996	7.22	24.00
99005175	BANK OF NOVA SCOTIA	3,656,931.19	6.875	June 01, 1998	7.87	21.83
99005183	BANK OF NOVA SCOTIA	2,724,055.56	6.875	June 01, 1998	7.74	15.08
99005225	CIBC MORTGAGE CORPORATION	19,137,932.44	6.125	June 01, 1996	7.27	30.33
99005241	TORONTO-DOMINION BANK	4,903,755.55	7.125	June 01, 1998	7.69	35.00
99005258	FIDUCIE DESJARDINS INC.	15,914,926.61	7.375	June 01, 1998	7.95	25.75
99005332	CIBC MORTGAGE CORPORATION	40,761,548.00	7.000	June 01, 1998	7.87	35.00
99005340	CIBC MORTGAGE CORPORATION	2,468,309.00	6.375	June 01, 1996	7.57	35.00
99005357	BANK OF NOVA SCOTIA	7,286,805.00	6.375	June 01, 1996	7.61	35.00
99005365	BANK OF NOVA SCOTIA	11,878,023.57	6.875	June 01, 1998	7.96	34.92
99005415	FIRSTLINE TRUST COMPANY	9,920,243.44	7.250	June 01, 1998	8.06	35.00

NHA MORTGAGE-BACKED SECURITIES

NEW ISSUES OF NHA MBS EASED AGAIN DURING THE SECOND QUARTER OF 1993

For the second consecutive quarter, issuance fell as 103 pools of NHA Mortgage-Backed Securities (MBS) totalling $1,113.6 million came to market during the second quarter. This is down from the peak seen in the last quarter of 1992 with 128 pools totalling $2,057.2 million and down from the first quarter of 1993 with 118 pools totalling $1,912.0 million. By the end of June, there were 1,295 pools outstanding totalling $14.1 billion.

HA Mortgage-Backed Securities ield Analysis – *June 30, 1993**



id Side
rce: Burns Fry Limited — CMHC – MAC 1993

HA Mortgage-Backed Securities Yield nalysis – *Market at Noon, July 20, 1993**

GOC description				
upon te	Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
6.25%	09/95	Open	45	5.79%
6.50%	08/96	Open	50	6.38%
7.50%	07/97	Open	57	6.81%
7.50%	07/97	Closed	44	6.68%
6.25%	02/98	Open	63	6.93%
6.25%	02/98	Closed	48	6.78%
7.25%	06/03	Open	68	7.78%

id Side
rce: Telerate; average for MBS traders — CMHC – MAC 1993

Much of the weakness was seen in residential prepayable (open) issuance where 51 pools were issued totalling $464.4 million. Social housing pools (non-prepayable or closed pools) accounted for $588.7 million and made up the largest portion of issuance for the quarter. Residential multiple units and mixed pools made up the remainder.

The yield curve steepened again during the first half of the year as short term rates began to fall closer to the rates experienced in the third quarter of 1992. The spread between one and five-year mortgage rates averaged 221 basis points during the third quarter of 1992 then narrowed to 127 basis points during the fourth quarter as rates rose sharply last fall. As rates eased this year, spreads between one and five-year mortgage rates have increased to 170 basis points during second quarter. By mid-July the spread had increased to 225 basis points.

This has promoted shorter term mortgages, which in turn has restricted the supply of five-year term mortgages which are more economical to pool into MBS than shorter term mortgages. The results of the limited supply can be seen in the smaller average pool size and the narrower margins over GOCs.

Spreads over GOCs still remain attractive to investors. The spread between five-year NHA MBS and five-year GOCs yields were at 75 basis points for open pools and 60 basis points for closed pools. This compares to higher first quarter spreads of 90 basis and 69 basis points for open and closed pools respectively.

Conditions for expansion of NHA MBS remain mixed. In an effort to reduce borrowing costs, CMHC is lending directly for federally subsidized housing as of August 1, 1993. This is expected to restrict new issuance of social housing pools. Currently there is $5.8 billion of social housing pools outstanding which accounts for 41 per cent of the total outstanding NHA MBS pools. On the other hand, interest still continues in derivatives after the introduction of Canada's first derivative MBS product this past spring. Although derivative products, such as collateralized mortgage obligations (CMOs), are quite common in the U.S., they are new to Canada's younger MBS market. Interest is expected to continue to grow as Canadian issuers seek out new products.

DIRECT LENDING FOR SOCIAL HOUSING IS EXPECTED TO SAVE $100 MILLION

As a result of changes to the National Housing Act, CMHC began lending directly for social housing effective August 1, 1993. Previously, financing of social housing loans relied on the private lending community through the Competitive Financing Renewal Process (CFRP). CFRP was introduced in 1988 in order to lower interest costs on social housing loans and direct lending has evolved from it. The new legislation now allows for the raising of capital directly from financial markets to finance social housing projects on a break even basis. As a federal crown corporation, CMHC has the ability to raise the large amounts required at a lower cost than the private lending community.

In the current tight fiscal environment, direct lending will allow CMHC to do more with its fixed social housing budget and is consistent with its goal of financing social housing at the lowest feasible cost. The interest rate savings combined with CMHC's branch network will save the corporation $100 million on the $11 billion portfolio over the next five years.

The impact on individual lenders will vary depending on what share of their portfolio they hold in social housing loans. In total, social housing loans represent 15 percent of all NHA insured loans.

Direct lending will have a more significant impact on NHA MBS. At the end of June, $5.8 billion of the $11 billion total social housing outstanding was in MBS pools. Issuance of new social housing pools may decline since no new federally backed social housing mortgages will be pooled and the renewal of existing pools will be refinanced through direct lending. The issuance of provincial social housing pools will however, continue.

STRONG TAKE-UP IN HOMEOWNERSHIP PROGRAMS ACROSS CANADA

In February 1992, the federal government introduced two programs targeted to homeownership. CMHC's First Home Loan Insurance (FHLI) allows first-time buyers to buy a house with a five per cent downpayment while Revenue Canada's Homebuyers' Plan (HB) allows individuals to withdraw up to $20,000 from their RRSPs for the purchase of a home.

Both programs have proved popular and have boosted housing and mortgage demand. During its first year of operation, FHLI has been used in the financing of 68,806 units. The total has risen above 100,000 units by mid-year, 1993. Under the Homebuyers' Plan, more than 153,000 individuals have withdrawn money from RRSPs to buy a home during the first year of operation, prior to March 2, 1993.

The table below presents provincial details with a comparison to the estimated number of housing transactions during 1992, including housing completions and an estimate of total sales of existing units. The calculated percentage take-up indicates how important the two programs are in financing house transactions across Canada.

FHLI was used in an estimated 12 per cent of total housing transactions at the national level, with large differences among the provinces, from a low of 5 per cent in British Columbia to a high of 26 per cent in New Brunswick. Take-up tends to drop in provinces with higher house prices. This reflects the fact that high house prices and high mortgage payments limit affordability for first-time buyers even if FHLI improves access via a lower downpayment and a higher eligible maximum house price.

Participants in the Homebuyers' Plan as a percentage of total transactions reached 26 per cent. This percentage, however, overestimates the number of housing transactions that may have involved RRSP financing since both spouses in a couple can withdraw funds toward the purchase of a home. Provincial variations are limited, with a minimum of 23 per cent in New Brunswick and a maximum of 35 per cent in Prince Edward Island.

Participation to Homeownership Programs by Province

	Units financed under FHLI (to Jan. 31, 93)	Participants to HB (to Mar. 1, 93)	Estimated Housing Transactions (1992)	As a % of Housing Transactions: Units financed under FHLI	As a % of Housing Transactions: Participants to HB
Newfoundland	1,157	1,352	5,500	21%	25%
Prince Edward Island	284	418	1,200	24%	35%
Nova Scotia	2,323	3,285	14,100	16%	23%
New Brunswick	1,776	2,127	6,800	26%	31%
Quebec	13,933	23,182	91,300	15%	25%
Ontario	27,417	63,734	261,200	10%	24%
Manitoba	3,398	3,679	14,600	23%	25%
Saskatchewan	2,199	2,977	9,600	23%	31%
Alberta	9,676	19,856	63,100	15%	31%
British Columbia	6,348	32,397	129,100	5%	25%
Yukon and N.W.T.	295	445	na	–	–
CANADA	**68,806**	**153,452**	**596,500**	**12%**	**26%**

Sources: CMHC, Revenue Canada, Canadian Real Estate Association

CMHC – MAC 1993

MBS MARKET PROFILE JPDATE

ıs Mortgage-Backed Securities have grown and matured over the last few 'ears, there have been a number of changes in the market, some significant, thers more subtle.

'ew issues of residential pools continue) dominate MBS activity. In 1992, they ıade up 64 per cent of total activity, ›mpared to 57 per cent in 1991. While)th social housing and residential ›ols grew significantly over the past ›ar, the dollar volume of residential ›ols grew by over 100 per cent in 1992.

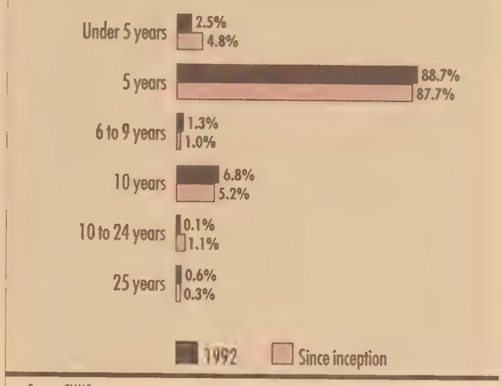
There was also a marked shift in the 'BS share of banks and trusts last year. ınks share of total activity of new ;sues rose from 28.9 per cent in 1991 to ›.4 per cent in 1992. There reflects the ict that many trusts were acquired by ınks in 1992. Trusts dominated MBS :sidential activity during the first five ›ars of MBS. They use MBS to raise ıpital at a lower cost than is available to ıem elsewhere. Life insurance compa- ıes also became very active in 1992. ior to last year, there were few issues ›m this sector. In 1992, they made up ' per cent of the activity.

Most of the new MBS issued in 1992 ıas in residential pools. In particular, ısidential pools issued by banks ıcreased somewhat. Banks have gener- ;y been more active in social housing ›ols than in residential pools, as they ›rmally have sufficient funds for their ıortgage activities. While the activity of ınks continues to grow each year in ›th residential and social housing ›ols, the shift to a much larger partici- ıtion in residential pools is not as ;nificant as it appears at first glance. ›ost of the increase came from one ›nk which was offering refinancing ıcentives and needed to raise addi- ›nal funds for mortgages, which they ıd through MBS.

Most of the issues of both social hous- ; and residential securities continue to be for five year maturities. As interest rates have declined and mortgages shifted to longer terms, short-term maturity issues have declined. In 1991, new issues with maturities under five years made up 10.6 per cent of activity. In 1992, only 2.5 per cent of issues were under five years. Long term issues of ten years and over, however, are gaining in popularity, with 6.8 per cent of 1992 issues having ten year maturities. Even 25 year maturities are seeing some action in both residential and social pools. This is still an extremely small portion of MBS business but it is growing.

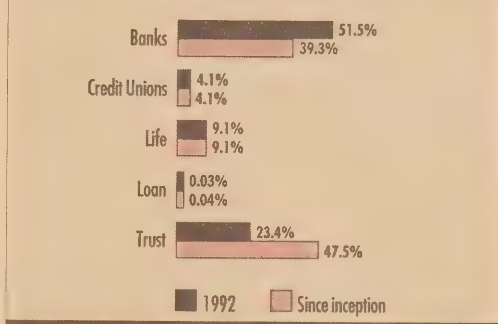
On a regional basis, the majority of issues continue to come from Ontario, with 50.9 per cent of total activity. This share has remained fairly constant over the last few years. Quebec's share of 1992 activity was significantly higher than in 1991, rising from 14.6 per cent to 24.8 per cent. The shift is due to one institution increasing its use of MBS.

Graph 1 Distribution of MBS Maturities



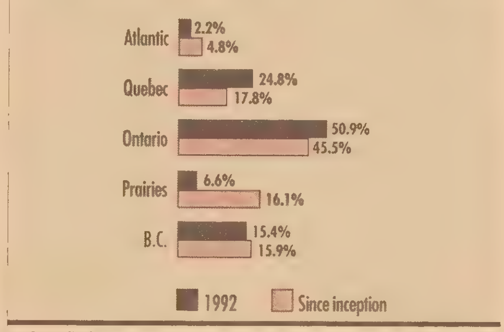
Source: CMHC CMHC – MAC 1993

Graph 2 Market Share of MBS Issuers



Source: CMHC CMHC – MAC 1993

Graph 3 Regional Distribution in 1992



Source: CMHC CMHC – MAC 1993

NHA MORTGAGE-BACKED SECURITIES

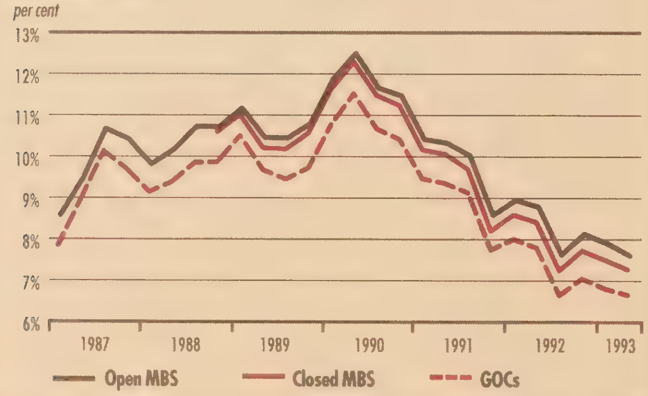
(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

		1991	1992	1993	92Q3	92Q4	93Q1	93Q
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	$7,603.1	$11,954.8	$14,090.1	$10,416.1	$11,954.8	$13,532.4	$14,090
	Units	771	1,102	1,295	989	1,102	1,209	1,2
Residential, single	$million	$4,713.4	$6,969.6	$7,766.9	$6,069.4	$6,969.6	$7,803.5	$7,766
	Units	453	646	753	576	646	717	7
Residential, multiple	$million	$51.4	$85.7	$295.4	$101.1	$85.7	$242.2	$295
	Units	6	5	8	6	5	6	
Social Housing	$million	$2,654.1	$4,643.7	$5,779.9	$3,993.1	$4,643.7	$5,224.9	$5,779
	Units	304	435	516	393	435	469	5
Mixed	$million	$184.2	$255.8	$247.9	$252.6	$255.8	$261.9	$247
	Units	8	16	18	14	16	17	
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	$3,187.4	$5,959.4	$3,025.6	$1,777.3	$2,057.2	$1,912.0	$1,113
	Units	282	388	221	118	128	118	1
Residential, single	$million	$1,800.9	$3,744.3	$1,575.2	$1,058.0	$1,377.9	$1,110.8	$464
	Units	148	243	131	76	83	80	
Residential, multiple	$million	$20.1	$56.1	$211.6	$56.1	$0.0	$157.8	$53
	Units	2	1	4	1	0	2	
Social Housing	$million	$1,197.3	$2,052.8	$1,220.5	$641.9	$662.4	$631.8	$588
	Units	125	136	84	38	43	35	
Mixed	$million	$169.1	$106.3	$18.2	$21.3	$16.9	$11.6	$6
	Units	7	8	2	3	2	1	
YIELDS (5-YEAR MATURITY, %)								
MBS Open		9.84	8.37	7.76	7.63	8.13	7.91	7.
MBS Closed		9.67	8.16	7.58	7.43	7.90	7.69	7.
MBS MMUF		9.76	8.28	7.66	7.53	8.00	7.78	7.
MBS Hybrid		9.85	8.37	7.76	7.64	8.13	7.91	7.
Mortgage rates		11.13	9.51	9.14	8.71	9.42	9.32	8.
GOCs		9.07	7.56	6.93	6.84	7.24	7.00	6.8
SPREADS OVER GOC (5-YEAR MATURITY, %)								
Open		0.78	0.82	0.83	0.80	0.88	0.90	0.
Closed		0.60	0.61	0.65	0.59	0.66	0.69	0.
MMUF		0.69	0.72	0.73	0.69	0.76	0.77	0.
Hybrid		0.78	0.82	0.83	0.80	0.88	0.90	0.
Mortgage Rates		2.06	1.96	2.21	1.87	2.17	2.31	2.

Not seasonally adjusted data.

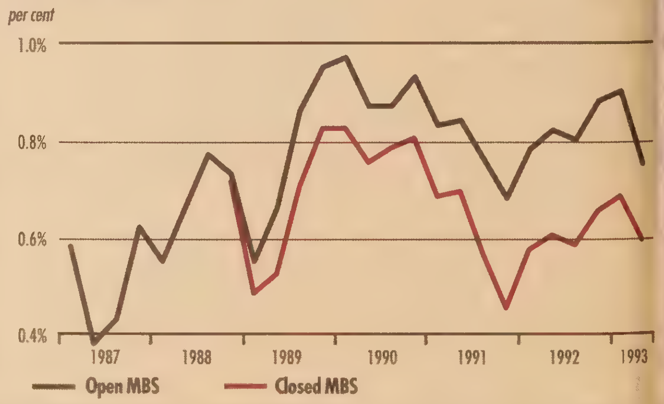
Source: CMHC, Burns Fry Limited *CMHC – MAC 1993*

Selected Interest Rates (5-year maturity)



Source: Burns Fry Limited *CMHC – MAC 1993*

Spreads over GOCs (5-year maturity)



Source: Burns Fry Limited *CMHC – MAC 1993*

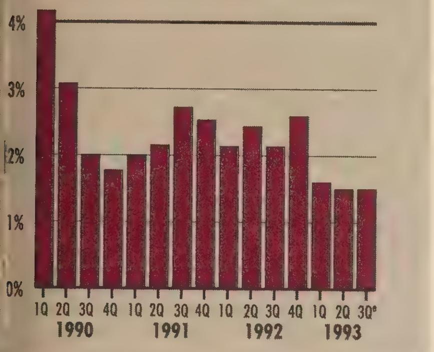
C M H C M O R T G A G E M A R K E T
TRENDS
MARKET ANALYSIS CENTRE FOURTH QUARTER 1993

MORTGAGE LENDING

MORTGAGE CREDIT EXPANDS SLIGHTLY

Mortgage credit outstanding continued to grow at a slow pace during the third quarter. The rate of growth is estimated at 1.3 per cent, the same as in the preceding quarter.

esidential Mortgage Credit Growth*
rom previous quarter)



*minal e: estimate
ce: Bank of Canada*

CMHC–MAC 1993

arket Share of Residential Mortgage Credit

	3Q92	2Q93	3Q93e
nks	44.9%	48.3%	49.6%
ıst	26.5%	22.8%	21.3%
sses & Co-op	13.9%	13.9%	13.9%
;	7.3%	7.2%	7.1%
nsion Funds	3.2%	3.1%	3.1%
. & Loan	4.1%	4.8%	5.1%

*imate
ce: Bank of Canada*

CMHC–MAC 1993

Steady housing markets and cautious consumers have permitted only a small increase in residential mortgage credit during the third quarter.

Mortgage credit outstanding reached an estimated $298.6 billion during the quarter, up 1.3 per cent from the previous quarter. It is the second consecutive quarter that has seen such a slow growth in mortgage outstanding. Before that, it was in 1984 that mortgage outstanding had grown so little.

Activity on housing markets was little changed during the quarter, as housing starts rose but sales of existing units fell. During the quarter, total housing starts increased 3.9 per cent to 159,500 from 153,500 units SAAR in the previous quarter. Sales of existing homes through the MLS[1] system fell 8.4 per cent to 306,700 from 334,800 units SAAR during the second quarter.

House prices are also fairly steady, based on national averages. The New House Price Index rose 0.2 per cent during the third quarter and has now advanced 1.3 per cent above its year ago level. Similarly, the average MLS price is little changed: down 0.5 per cent in the third quarter, although up 0.8 per cent from a year ago.

A relatively stable value of housing transactions has contributed to stem the growth of mortgage origination and therefore mortgage credit outstanding.

Nonetheless, mortgage outstanding is still rising. There are several reasons. First, even a moderate level of housing starts represent an addition to the housing stock and therefore to mortgage demand. As well, lenders value the security of mortgage loans compared to personal or business loans in the current environment, which leads to a shift in loan portfolios toward mortgage loans. Finally, such a shift is also a benefit to borrowers given that mortgage interest rates are relatively cheaper than rates on busines loans, personal loans and credit cards.

The acquisition of Royal Trust by the Royal Bank of Canada contributed to modify the distribution of mortgage credit by type of institution. Based on CMHC's estimates, 49.6 per cent of mortgage credit outstanding is held by banks, up from 48.2 per cent in the second quarter.

This percentage should rise to around 51.5 per cent during the closing quarter of the year, since the transaction was reflected in only one of the months of the third quarter. The share held by trust companies fell by a comparable order of magnitude. The distribution held fairly steady among the other types of institutions.

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

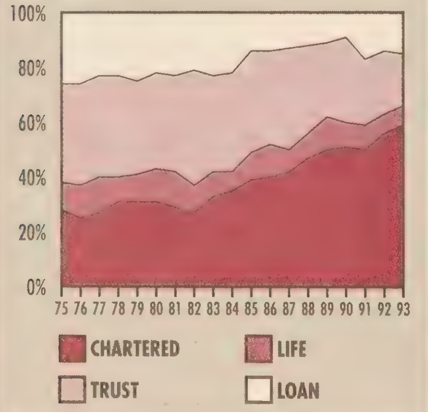
HOW THE MORTGAGE MARKET SHARE BY FINANCIAL INSTITUTIONS HAS CHANGED OVER TIME

By: Leonard FitzPatrick, Economist, Modelling & Forecasting

In recent years, Canada's chartered banks have become increasingly involved in the mortgage market. For single unit mortgages, growth in bank financed mortgages has occurred at the expense of trust companies. In the realm c multiple unit mortgages, however, almost all other financial institutions have lost some ground to chartered banks. The size of the average loan approval continues to grow. Life insurance companies, however, not banks, set the pace for the average size of singles approvals.

The past 15 years have seen chartered banks gain an increasingly larger share of the Canadian mortgage market. Back in 1976, the banks financed only 28 per cent of the year's 350 thousand mortgage approvals. By 1992, the market had increased to more than one million mortgage approvals, with chartered banks snapping up 56 per cent of the business. In the first two quarters of 1993, anyone purchasing or refinancing a single unit selected chartered banks 64 per cent of the time, whereas 50 per cent of all mortgage approvals for multiple units went to the banks.

Figure 1. Share of Mortgage Loans Approved by Type of Lending Institution

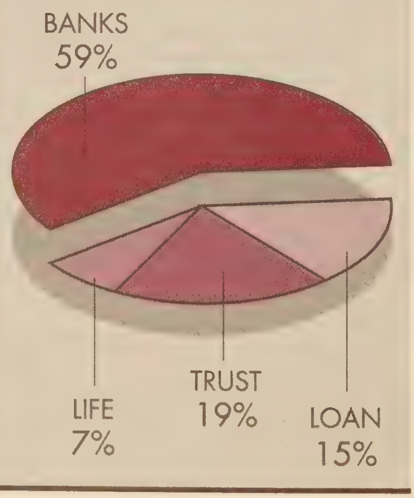


Source: CMHC Statistical Services & MAC — CMHC – MAC 1993

Figure 1, shows how the share of mortgages financed by other institutions shrank as those financed by chartered banks increased. Between 1976 and mid-1993, trust companies saw their 37 per cent of the market contract to 19 per cent, with most of the decline occurring since 1987. That year, trust companies had 33 per cent of the mortgage approval market for singles and 42 per cent for multiples. This has dropped to 18 per cent for singles and 20 per cent for multiples.

Similarly, the market share held by loan and other financial institutions has declined from 25 per cent to 15 per cent over the past 15 years. This decline, concentrated in multiples, reached a low point in 1990. Since then the market share has gradually moved higher. Loan and other financial institutions held a substantial 31 per cent of the business for multiples in 1976. Market share fell continually to reach 9 per cent by 1990. By mid-1993, they reclaimed a part of this loss, garnering 16 per cent of the approval business for multiples. Loan and other financial institutions saw their market share of singles fall from 21 per cent in 1976 to 10 per cent in 1990. Market share edged up again in 1993 to reac 15 per cent.

Figure 2. Share of Mortgage Approvals
First 6 months of 1993



Source: CMHC — CMHC – MAC 1993

Rounding out the list of major players are life insurance companies. They too have suffered a decline in market share from 1976 to now. The story here is different from other mortgage lenders. Th share of multiple business undertaken b life insurance companies has tended to follow the business cycle.

Between 1976 and 1980, life insurance companies captured 18 per cent of the market for multiples. This dropped to 15.5 per cent for the period 1981 to 1984, before rising to 21.4 per cent between 1985 and 1989, as economic activity picked up. Then, as the economy began to slow in 1990, so did the interest of life insurance companies in financing multiples. Since 1990, market share has agai retreated to a level of 18 per cent. Their share of the singles market, by contrast, has never been large, and has remained quite stable. Between 1976 and 1982, th held about 6 per cent of this market. Over the past decade, their share remained a fairly constant 3 per cent.

Although, the reasons for declining market share differ for each of the finan cial institutions, one thing is certain,

Table 1. Share of Mortgage Business By Institution

	1979		1992	
	SINGLES	MULTIPLES	SINGLES	MULTIPLES
Chartered Banks	.85	.15	.80	.20
Life Insurance	.56	.44	.50	.50
Trust Companies	.75	.25	.74	.26
Loan & Other	.74	.26	.77	.23

Source: Statistical Services Division CMHC — CMHC – MAC 1!

leregulation has been kind to the char-
ered banks. Since 1987, mortgage busi-
ness that used to be conducted by trust
companies, which now have bank par-
ents, is often transferred back to the
banks.

Banks have realized certain economies after their acquisition of some trust businesses, which resulted in a lowering of their cost of funds. When this is combined with a superior branch network, the results are a more efficient operation allowing banks to be very price competitive. In addition, over the past several years, banks have changed the way they do business. Personal banking and pursuing more of a customer friendly and responsive attitude has seen a return of business previously lost to the other financial institutions.

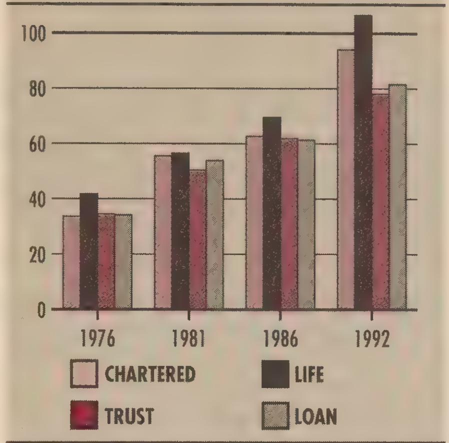
It is interesting to see that the split between single and multiple mortgage business for banks is similar to that of trust companies and loan and other financial institutions. But, it is very different from life insurance companies. Table 1 shows that all financial institutions in 1992, except life insurance companies, maintained an 80-20 split between single and multiple dollar volume. That is, 80 per cent of the mortgage approvals are for single units whereas 20 per cent are for more risky multiple unit projects. Furthermore, this is very close to the split that has existed since 1979. Life insurance companies, however, buck this trend by providing money almost equally between singles and multiples.

To compensate for the smaller portfolio share of singles versus multiples, life insurance companies have pursued higher valued properties. As figure 3 shows, the average single family loan approved by life insurance companies has increased quite a lot over the past few years.

From 1986 to 1992, the average loan approval for singles has grown by almost 54 per cent for life insurance companies, 50 per cent for banks, 32 per cent for loan and other financial institutions, and 26 per cent for trust companies. In contrast, figure 4 shows that life insurance companies are not quite as aggressive in taking on higher valued multiple projects.

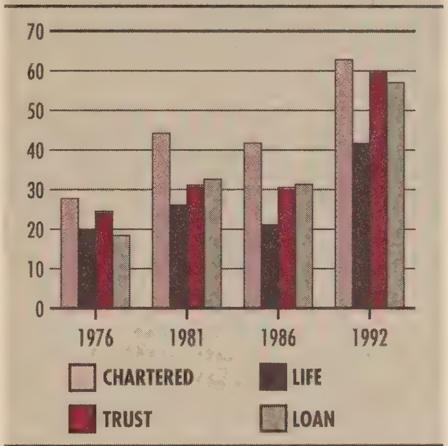
Both these decisions make a great deal of business sense. They increase life insurance companies dollar volume of business on the less risky singles, and decrease it on the more risky multiples. By so doing they are searching for the total portfolio balance that they can not otherwise obtain.

Figure 3. Average Loan Approval for Singles (current dollars)
New and Existing Residential Construction



Source: CMHC CMHC – MAC 1993

Figure 4. Average Loan Approval for Multiples (current dollars)
New and Existing Residential Construction



Source: CMHC CMHC – MAC 1993

FOR INFORMATION REGARDING THIS ARTICLE, PLEASE CONTACT LEONARD FITZPATRICK AT (613) 748-2552

MORTGAGE FINANCING

The Changing Dynamics of Home Financing

Easier monetary policy and falling inflation allowed mortgage rates to decline significantly over the last few years. From a peak of 14.24 per cent in 1990 for both one- and five-year terms, mortgage rates have dropped to 6.25 per cent for a one-year term and 7.75 per cent for a five-year term.

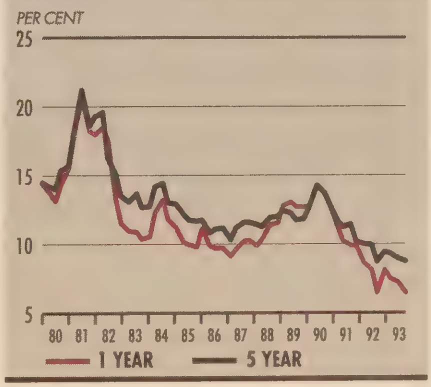
Housing affordability has greatly improved as a result. Consider the following example of a $100,000 mortgage amortized over 25 years: given current mortgage rates, monthly payments are over $500 lower for a one-year term and over $400 lower for a five-year term compared to what payments would have been in 1990. Stated another way, the fall in mortgage rates since 1990 has lowered mortgage payments for the same sized mortgage 45 per cent on a one-year term and 37 per cent on a five-year term.

Mortgage rates may be much lower, but so is inflation. With lower inflation comes lower income growth, which changes the dynamics of home financing.

Typically a homebuyer would face high initial mortgage payments and rely on increases in income over time to reduce the cost of those payments. That is, mortgage payments as a per cent of income would become proportionately smaller over time. Now, given a similar sized mortgage, homebuyers face lower mortgage payments due to lower interest rates. But, with lower inflation, the income growth that homebuyers once relied on to offset mortgage costs may no longer be there.

Homebuyers will now need to consider carrying their initial debt servicing load over a longer period. Moreover, lower inflation will slow the build-up of home equity and this may have an impact on homeowners trading-up. The traditional approach of assuming the largest mortgage one could carry and then rely on income growth to reduce the burden may no longer be reasonable.

Mortgage Rates



Source: Bank of Canada CMHC – MAC 1993

Mortgage Credit Outstanding[1] (in millions of dollars)

	1991	1992	1993[2]	92Q3	92Q4	93Q1	93Q2	93Q3[e]
TOTAL	251,710	276,137	298,624	278,929	286,509	291,108	294,809	298,624
% change	8.6	9.7	8.1	2.3	2.7	1.6	1.3	1.3
Banks	108,767	123,567	148,005	125,208	130,867	139,705	142,260	148,005
Trust Co.	75,283	74,512	63,561	74,037	73,803	67,728	67,336	63,561
Caisses & CO-OP	33,386	38,121	41,477	38,703	39,456	40,233	40,867	41,477
Life Ins. Co.	17,692	20,002	21,229	20,473	21,115	21,242	21,110	21,229
Pension Funds	8,771	8,992	9,252	8,993	9,045	9,040	9,105	9,252
Fin. & Loan	7,811	10,943	15,100	11,515	12,223	13,159	14,132	15,100

(1) Seasonally Adjusted Data (2) Cumulative (e) Estimate

Source: Bank of Canada *CMHC – MAC 1993*

NHA and Conventional Loans Approved[1]

		1991	1992	92Q2	92Q3	92Q4	93Q1	93Q2
TOTAL	$ millions	70,059	83,295	21,056	20,988	21,317	15,903	19,935
	Units	962,356	1,052,574	270,294	262,522	262,708	190,618	251,218
NHA	$ millions	15,370	23,208	5,977	5,969	5,179	5,031	7,298
	Units	83,314	255,730	66,309	65,702	57,265	57,682	82,303
Conventional	$ millions	54,689	60,087	15,079	15,019	16,138	10,877	12,637
	Units	779,042	796,844	203,985	196,820	205,443	132,936	168,915
By Type of Lender								
Banks	$ millions	38,213	50,483	12,594	12,766	14,110	10,097	12,176
	Units	473,868	589,507	151,177	147,816	159,236	113,980	146,727
Trust Co.	$ millions	15,692	17,372	4,341	4,694	3,807	2,587	3,493
	Units	237,216	239,910	60,528	65,011	51,364	33,425	49,269
Life Ins. Co.	$ millions	5,044	4,657	1,106	803	949	784	1,123
	Units	94,333	77,875	17,048	13,707	16,721	13,608	17,368
Others	$ millions	11,110	10,783	3,015	2,725	2,451	2,435	3,143
	Units	156,939	145,282	41,541	35,988	35,387	29,605	37,854

(1) Not Seasonally Adjusted at Annual Rate

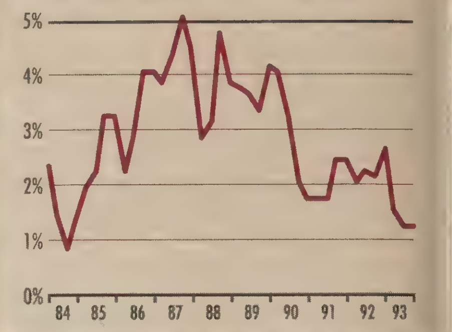
Source: CMHC *CMHC – MAC 1993*

Mortgage Rates (Average of period)

	1991	1992	1993	92Q3	92Q4	93Q1	93Q2	93Q3
1-Year Mortgage Rate	10.08	7.87	7.10	6.50	8.15	7.55	7.25	6.50
3-Year Mortgage Rate	10.90	8.95	8.35	8.00	8.82	8.55	8.25	8.25
5-Year Mortgage Rate	11.13	9.51	9.01	8.71	9.42	9.32	8.95	8.75

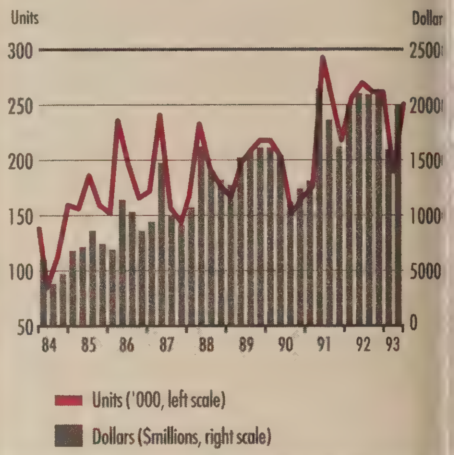
Sources: Bank of Canada, CMHC *CMHC – MAC 1993*

Residential Mortgage Credit Growth
(in per cent)



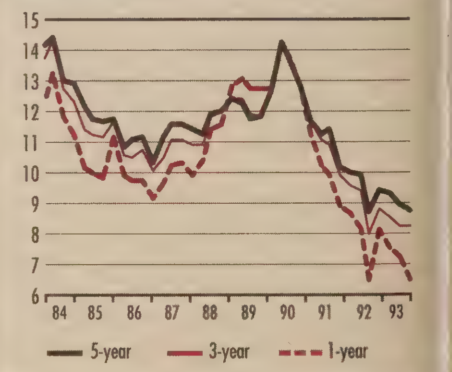
Source: Bank of Canada; CMHC *CMHC – MAC 1993*

NHA and Conventional Approvals



Source: CMHC *CMHC – MAC 199*

Mortgage Rates *(per cent)*



Source: Bank of Canada *CMHC – MAC 199*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Tim Elliot, Acting Capital Markets Economist, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Paul Poliquin, Director, MBS Centre, CMHC, Toronto Tel.: (416) 495-2199.

Mortgage Market Trends is a quarterly publication. Enquiries regarding subscription should be directed to:
Canada Communication Group-Publishing,
Ottawa, Canada K1A 0S9.
Tel.: (819) 956-4802; Fax: (819) 994-1498.

Annual subscription (4 issues) $44. + GST – Catalogue No. NH12-8E.
Single issue $11. + GST – Catalogue No. NH12-8-1993-4E.

Cette publication est aussi disponible en français sous le titre SCHL – Tendances du marché hypothécaire–LNH6109AT/93

ISSN 1188-4215
Printed in Canada

CMHC offers a wide range of housing-related information. For details, contact your local CMHC office.

CMHC subscribes to Canada's Green Plan. Quantities of our publications are limited to market demand; updates are produced only when required; and recycled or environmentally friendly stock and environmentally safe inks are used wherever possible.

NHA Mortgage-Backed Securities Third Quarter Issues

July 1993 to September 1993

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: July 1993						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96408208	MACKENZIE TRUST COMPANY	4,008,083.81	7.500	June 01, 1998	8.97	17.25
96408240	LONDON LIFE INSURANCE CO.	19,972,236.87	7.500	July 01, 1998	8.80	22.67
96408257	MACKENZIE TRUST COMPANY	5,972,246.14	7.250	July 01, 1998	8.73	22.00
96408356	PACIFIC COAST SAVINGS C.U.	7,999,335.71	7.375	July 01, 1998	8.98	22.58
96408364	LONDON LIFE INSURANCE CO.	3,210,543.95	8.375	July 01, 2003	9.53	18.50
96408372	LONDON LIFE INSURANCE CO.	3,135,337.61	6.875	July 01, 1996	8.23	22.92
96408430	PACIFIC COAST SAVINGS C.U.	7,994,414.87	6.625	July 01, 1996	8.19	23.33
96408521	HOUSEHOLD TRUST COMPANY	7,996,462.24	7.125	July 01, 1998	8.72	24.92
96408539	HOUSEHOLD TRUST COMPANY	4,924,701.18	6.750	July 01, 1996	8.52	24.50
96408547	FIRSTLINE TRUST COMPANY	7,940,514.97	7.875	September 01, 2003	9.56	24.25
96408554	FIRSTLINE TRUST COMPANY	92,837,778.68	7.000	September 01, 1998	8.84	23.83
96408562	FIRSTLINE TRUST COMPANY	15,985,483.77	7.000	April 01, 1998	8.89	23.25
96408570	FIRSTLINE TRUST COMPANY	11,740,873.00	7.000	August 01, 1998	9.10	23.75
96408588	FIRSTLINE TRUST COMPANY	44,827,759.38	7.000	August 01, 1998	8.86	18.83
96408596	FIRSTLINE TRUST COMPANY	12,432,772.33	7.000	August 01, 1998	8.83	15.17
96408604	FIRSTLINE TRUST COMPANY	6,690,705.68	7.875	September 01, 2003	9.53	18.50
96408679	FIRSTLINE TRUST COMPANY	4,283,258.79	6.750	September 01, 1998	8.65	21.42
96408687	FIRSTLINE TRUST COMPANY	3,218,543.46	6.750	July 01, 1998	8.85	12.17
96408695	FIRSTLINE TRUST COMPANY	3,862,951.18	6.750	July 01, 1998	9.11	22.92
96408703	FIRSTLINE TRUST COMPANY	3,534,025.12	8.000	August 01, 2018	10.00	18.50
96408711	FIRSTLINE TRUST COMPANY	3,634,339.32	5.500	September 01, 1995	7.88	22.17
96408729	FIRSTLINE TRUST COMPANY	2,467,469.63	7.500	August 01, 2000	9.35	13.42
96408737	FIRSTLINE TRUST COMPANY	3,972,410.97	7.500	July 01, 2000	9.31	15.75
96408745	FIRSTLINE TRUST COMPANY	12,788,586.33	7.500	August 01, 2000	9.26	18.75
96408752	FIRSTLINE TRUST COMPANY	11,406,641.12	7.500	June 01, 2000	9.39	23.33
96408760	FIRSTLINE TRUST COMPANY	16,245,105.04	7.500	August 01, 2000	9.21	23.58
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500194	SECURITY HOME MORTGAGE INV.CORP.	6,937,394.25	7.125	July 01, 1998	8.84	24.92
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600101	PEOPLES TRUST COMPANY	27,830,506.64	7.250	July 01, 1998	8.33	24.92
96600127	PEOPLES TRUST COMPANY	34,027,843.51	7.250	July 01, 1998	7.92	26.00
SOCIAL HOUSING POOLS						
99005266	TORONTO-DOMINION BANK	2,211,966.23	7.125	July 01, 1998	7.80	27.00
99005274	TORONTO-DOMINION BANK	2,835,908.64	7.375	July 01, 1998	7.99	22.17
99005282	TORONTO-DOMINION BANK	10,159,590.39	7.125	July 01, 1998	7.88	24.92
99005290	CIBC MORTGAGE CORPORATION	5,353,766.22	7.125	July 01, 1998	7.98	25.00
99005308	METROPOLITAN TRUST COMPANY	14,671,160.86	7.625	July 01, 2000	8.23	30.00
99005316	METROPOLITAN TRUST COMPANY	3,424,279.75	7.375	July 01, 1998	8.12	24.75
99005324	VANCOUVER CITY SAVINGS C.U.	9,426,398.66	6.875	July 01, 1996	7.46	24.00
99005373	FIDUCIE DESJARDINS INC.	4,259,450.00	7.250	July 01, 1998	7.77	35.00
99005381	CIBC MORTGAGE CORPORATION	63,364,652.16	6.375	July 01, 1996	7.29	33.00
99005399	CIBC MORTGAGE CORPORATION	16,336,408.03	6.375	July 01, 1996	7.31	33.00
99005407	BANQUE NATIONALE DU CANADA	3,293,015.10	7.250	July 01, 1998	7.92	27.25
99005449	TORONTO-DOMINION BANK	3,111,029.00	7.125	July 01, 1998	7.84	35.00
99005456	CIBC MORTGAGE CORPORATION	130,015,336.00	6.875	July 01, 1998	7.70	35.00
99005472	BANK OF NOVA SCOTIA	11,495,235.00	6.000	July 01, 1996	7.34	35.00
99005480	BANK OF NOVA SCOTIA	60,180,298.31	6.625	July 01, 1998	7.67	35.00
99005498	CIBC MORTGAGE CORPORATION	3,164,067.00	6.000	July 01, 1996	7.26	35.00
99005506	FIRSTLINE TRUST COMPANY	122,309,213.00	6.875	July 01, 1998	7.65	35.00
MONTH OF ISSUE: August 1993						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96408414	MACKENZIE TRUST COMPANY	7,389,101.96	7.000	August 01, 1998	8.64	22.92
96408448	BANQUE NATIONALE DU CANADA	57,990,706.11	7.000	June 01, 1998	8.91	23.25
96408455	BANQUE NATIONALE DU CANADA	33,944,431.00	7.000	May 01, 1998	8.92	23.17
96408463	BANQUE NATIONALE DU CANADA	9,485,827.28	7.000	May 01, 1998	8.99	15.50
96408471	BANQUE NATIONALE DU CANADA	28,479,797.16	7.000	April 01, 1998	8.99	23.17
96408612	LONDON LIFE INSURANCE CO.	10,046,139.63	7.250	August 01, 1998	8.84	18.00
96408620	LONDON LIFE INSURANCE CO.	20,003,186.18	7.000	August 01, 1998	8.69	22.67
96408646	SUN LIFE TRUST COMPANY	35,078,228.42	7.125	July 01, 1998	8.51	24.67

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS) – cont'd						
96408653	HOUSEHOLD TRUST COMPANY	14,960,090.07	6.875	August 01, 1998	8.62	24.92
96408661	FAMILY TRUST CORPORATION	3,746,917.31	6.750	August 01, 1998	8.65	24.50
96408778	HOUSEHOLD TRUST COMPANY	13,999,850.29	6.750	August 01, 1998	8.47	249.17
96408877	WESTMINSTER CREDIT UNION	6,433,871.56	6.875	August 01, 1998	8.78	22.08
96408885	FIRSTLINE TRUST COMPANY	2,749,724.74	7.625	October 01, 2003	9.49	18.17
96408893	FIRSTLINE TRUST COMPANY	3,892,982.32	7.625	October 01, 2003	9.46	23.33
96408919	FIRSTLINE TRUST COMPANY	13,842,231.13	7.250	October 01, 2000	8.90	22.92
96408927	FIRSTLINE TRUST COMPANY	5,645,688.28	7.250	October 01, 2000	9.07	18.00
96408935	FIRSTLINE TRUST COMPANY	2,700,803.17	6.750	October 01, 1998	8.70	18.75
96408943	FIRSTLINE TRUST COMPANY	4,987,166.65	6.750	October 01, 1998	8.60	22.50
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500202	PEOPLES TRUST COMPANY	2,813,305.72	7.125	July 01, 1998	8.76	23.75
96500210	SECURITY HOME MORTGAGE INV.COR	8,791,689.30	6.750	August 01, 1998	8.76	25.83
SOCIAL HOUSING POOLS						
99005423	CIBC MORTGAGE CORPORATION	2,551,949.45	7.000	August 01, 1998	7.94	25.00
99005431	BANK OF NOVA SCOTIA	2,420,739.01	7.000	August 01, 2000	7.88	30.00
99005464	CIBC MORTGAGE CORPORATION	200,782,931.01	5.750	August 01, 1996	6.86	32.25
99005514	METROPOLITAN TRUST COMPANY	3,026,857.52	6.000	August 01, 1996	7.13	30.00
99005522	MARITIME LIFE ASSURANCE CO.	3,826,883.31	6.000	June 01, 1998	7.93	34.67
99005548	CIBC MORTGAGE CORPORATION	7,915,000.00	6.500	August 01, 1998	7.38	35.00
99005555	BANQUE NATIONALE DU CANADA	5,237,985.99	6.875	August 01, 1998	7.58	24.00
99005563	BANK OF NOVA SCOTIA	10,831,951.00	6.000	August 01, 1998	7.50	35.00
99005589	TORONTO-DOMINION BANK	2,899,022.81	6.875	August 01, 1998	7.46	34.17
99005597	FIRSTLINE TRUST COMPANY	40,584,781.00	6.625	August 01, 1998	7.33	35.00
MONTH OF ISSUE: September 1993						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96408638	LONDON LIFE INSURANCE CO.	25,417,377.31	7.125	September 01, 1998	8.73	23.33
96408794	BANQUE NATIONALE DU CANADA	86,205,008.97	7.000	July 01, 1998	8.89	23.58
96408802	BANQUE NATIONALE DU CANADA	13,900,427.33	7.000	July 01, 1998	8.89	15.17
96408810	PACIFIC COAST SAVINGS C.U.	7,997,206.11	6.250	September 01, 1996	8.26	23.58
96408828	PACIFIC COAST SAVINGS C.U.	4,996,116.00	6.625	August 01, 1998	8.93	18.08
96408836	PACIFIC COAST SAVINGS C.U.	9,999,530.45	6.625	September 01, 1998	8.89	23.75
96408851	LONDON LIFE INSURANCE CO.	3,500,816.62	7.750	September 01, 2003	9.46	23.25
96408869	LONDON LIFE INSURANCE CO.	4,772,052.24	6.500	September 01, 1996	8.16	23.17
96408901	VANCOUVER CITY SAVINGS C.U.	42,783,331.93	6.750	June 01, 1998	8.90	24.17
96408950	HOUSEHOLD TRUST COMPANY	27,940,040.86	6.750	September 01, 1998	8.59	24.83
96408976	FAMILY TRUST CORPORATION	2,784,996.95	6.750	September 01, 1998	8.46	24.83
96408984	PEOPLES TRUST COMPANY	2,247,915.84	6.625	August 01, 1998	8.67	23.50
96409065	HOUSEHOLD TRUST COMPANY	35,306,682.04	6.625	September 01, 1998	8.44	24.75
96409073	FIRSTLINE TRUST COMPANY	2,614,428.13	6.625	November 01, 1998	8.37	13.42
96409081	FIRSTLINE TRUST COMPANY	8,936,942.24	6.625	November 01, 1998	8.43	18.67
96409099	FIRSTLINE TRUST COMPANY	23,312,252.50	6.625	November 01, 1998	8.39	23.92
96409107	FIRSTLINE TRUST COMPANY	2,046,078.06	7.250	November 01, 2003	9.37	12.92
96409115	FIRSTLINE TRUST COMPANY	3,621,471.89	7.250	November 01, 2003	9.30	17.67
96409123	FIRSTLINE TRUST COMPANY	6,647,721.56	7.375	November 01, 2003	9.14	22.75
96409164	FIRSTLINE TRUST COMPANY	2,668,269.30	7.875	October 01, 2018	9.67	18.83
96409172	FIRSTLINE TRUST COMPANY	2,645,151.99	7.875	September 01, 2018	9.78	24.75
96409180	FIRSTLINE TRUST COMPANY	2,974,403.71	6.250	November 01, 1995	7.03	22.92
96409198	FIRSTLINE TRUST COMPANY	2,343,262.58	7.250	November 01, 2000	8.76	13.08
96409206	FIRSTLINE TRUST COMPANY	4,994,514.70	7.250	November 01, 2000	8.63	17.42
96409214	FIRSTLINE TRUST COMPANY	20,938,137.91	7.250	November 01, 2000	8.55	22.25
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500228	MACKENZIE TRUST COMPANY	7,516,538.22	6.500	September 01, 1998	8.26	23.08
SOCIAL HOUSING POOLS						
99005530	CIBC MORTGAGE CORPORATION	64,635,020.94	5.500	September 01, 1996	6.34	33.00
99005571	TORONTO-DOMINION BANK	3,366,714.33	5.625	September 01, 1996	6.58	29.00
99005605	TORONTO-DOMINION BANK	2,092,187.30	6.625	September 01, 1998	7.19	34.83
99005613	TORONTO-DOMINION BANK	3,081,360.00	6.625	September 01, 1998	7.20	35.00
99005621	BANK OF NOVA SCOTIA	76,472,667.95	6.125	September 01, 1998	7.18	34.92
99005639	CIBC MORTGAGE CORPORATION	40,501,376.00	6.375	September 01, 1998	7.18	35.00
99005647	CIBC MORTGAGE CORPORATION	9,224,191.00	5.500	September 01, 1996	6.74	35.00

SURVEY SHEDS LIGHT ON HOME PURCHASING BEHAVIOUR OF NHA CLIENTS

Results of a recent CMHC survey show that consumers who use regular homeowner insurance and those enrolled in the First Home Loan Insurance (FHLI) plan have similar home buying patterns although their financial resources are quite different.

Both types of clients are likely to purchase detached, single- family homes, prefer existing homes and make their choices fairly quickly. They also list a desire to own, rather than rent, as a major reason for the purchase. However, FHLI clients had fewer funds for a downpayment.

The main difference between the two mortgage insurance products is in downpayment requirements. The regular NHA homeowner insurance product requires a minimum 10 per cent down, while the FHLI plan calls for a minimum of only 5 per cent. FHLI was introduced in 1992 to assist people who had never been able to purchase a home because of the downpayment requirements.

Survey data show that, indeed, the overwhelming majority of FHLI clients were first-time buyers, while only 42 per cent of regular NHA clients were first time buyers. Another striking difference was the length of time members of the two groups had been renting prior to purchase. On average, FHLI clients had rented about eight years before finally buying a home, while regular NHA clients had rented only seven years. As well, a larger proportion of the FHLI clients had rented for more than 10 years (25 per cent versus 17 per cent for NHA clients).

Despite these initial differences in situation, both groups ended up with similar buys. Seventy-three per cent of both types of clients bought fully detached, single-family homes, and a full 85 per cent of these purchases were existing homes.

Neither group made the search for a home a drawn-out affair. FHLI program participants spent an average of 5.4 months looking and saw an average of 3.6 homes that were of interest to them before deciding on one. Regular clients spent an average of 5.8 months on the search and gave serious consideration to three homes on average.

Reasons for moving were similar for both groups. Factors included: the desire to own rather than rent, a host of pragmatic reasons (needing more space, changing employment situation, changing family size or structure), the location of the new home and the investment opportunity. FHLI clients were particularly influenced by the desire to own rather than rent. This is not surprising, considering they were more likely to have been renters and had been renting for longer times.

For both groups, mortgage rates greatly affected the timing of their purchases. Other considerations included the price of homes generally and the household income. However, FHLI participants were very much influenced by another factor — the FHLI program itself. Participants rated this plan second only to mortgage rates as the most important spur towards buying when they did.

In financing their home purchase, most clients relied heavily on their savings. NHA clients who already owned a home used their equity to finance the new purchase. About one-quarter of all CMHC clients used Revenue Canada's Homebuyers' Plan, which allows withdrawals of up to $20,000 from RRSPs for home purchases, to make a downpayment. Regular NHA homeowner clients generally accessed more funds through RRSPs, than the FHLI clients — an average of $7,725, compared with $4,355, respectively.

The survey was conducted in May 1993 with a sample of 600 CMHC clients who had purchased their homes between May and December 1992. The results of the survey are accurate to within plus or minus 4 per cent, 19 times out of 20.

Number of months spent actively looking for a home	FHLI Clients	Regular NHA Homeowner Clients
Zero months	6%	7%
< than 2 mos.	29%	26%
2 to 4 mos.	28%	29%
4.1 to 6 mos.	16%	15%
> than 6 mos.	21%	23%
Number of homes seen that were of interest		
None	23%	20%
One	10%	13%
Two	19%	22%
Three to four	27%	27%
Five to ten	15%	15%
More than 10	6%	4%
Main Source of down-payment		
Savings	78%	65%
Equity from sale of previous home	2%	31%
RRSPs	18%	17%
Gift from parents/ family	14%	11%
Borrowed funds	4%	5%
Government grant or loan	2%	3%
Tax refund	3%	1%
Rent to own agreement	0%	1%
Sale of equity, other than home	3%	1%
Refused	2%	1%
Other	4%	3%

Note: Numbers add up to more than 100% because of multiple responses.

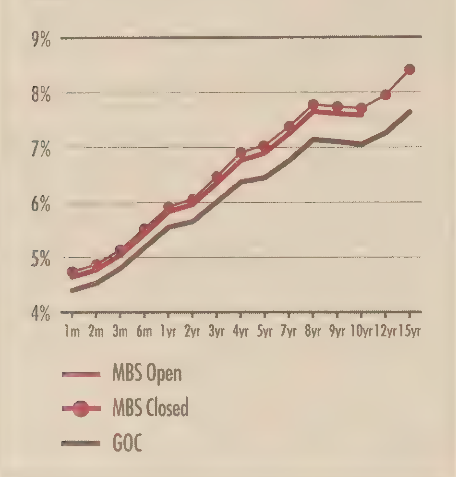
FOR INFORMATION REGARDING THIS ARTICLE, PLEASE CALL: CHRISTINA HADDAD AT (613) 748-4699

NHA MORTGAGE-BACKED SECURITIES

NHA MBS ISSUES REBOUND IN THE THIRD QUARTER OF 1993

After slowing down during the first two quarters of 1993, new issues of NHA Mortgage-Backed Securities (NHA-MBS) leapt aheac in the third quarter as 109 pools of totalling $1,983 million came to market. This represents the highest quarterly activity yet for 1993, exceeding both the first quarter's issuance of $1,912.0 million and the second quarter's issuance of $1,113.6 million. This brings the total outstanding NHA-MBS to 1,372 pools, totalling $15.4 billion.

NHA Mortgage-Backed Securities Yield Analysis – *September 30, 1993**



* Bid Side
Source: Burns Fry Limited CMHC – MAC 1993

NHA Mortgage-Backed Securities Yield Analysis – *Market at 11:30 a.m., October 20, 1993**

GOC description				
Coupon Rate	Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
6.25%	09/95	Open	41	5.36%
6.50%	08/96	Open	45	5.77%
7.50%	07/97	Open	55	6.30%
7.50%	07/97	Closed	40	6.15%
6.50%	09/98	Open	57	6.44%
6.50%	09/98	Closed	45	6.32%
7.25%	06/03	Open	64	7.24%

* Bid Side
Source: Telerate; average for MBS traders CMHC – MAC 1993

Strength came from both residential single (open) pools and social housing (closed) pools. The quarter saw 69 residential single pools issued, for a total of $950.1 million. This level represents a significant increase from second quarter total of $464.4 million, but no major change over levels seen in the later part of 1992 and early 1993.

Although social housing pools attained a slightly lower dollar volume – $945.1 million – this activity was more significant than that of the residential pools. Third quarter social housing activity was a record quarter and it was driven by two other records. In August, the Ontario Ministry of Housing brought the largest ever social housing pool, worth $200.8 million, to market. In addition, July was the most active month for social housing pools in MBS history.

The rest of the quarter's MBS activity consisted of two residential multiple pools and four mixed pools for a combined total of $88 million.

The yield spread between NHA-MBS and GOCs continued to narrow during the third quarter. The spread between five-year open pools and five-year GOCs fell 28 basis points since the first quarter to 62 basis points. Over the same period, the spread between five-year closed pools and five-year GOCs fell 22 basis points since this first quarter to 47 points. These spreads are the lowest since the end of 1991.

Two factors explain the narrowing over GOCs: spreads on alternative investments, such as provincial bonds, over GOCs have narrowed; and, demand for NHA-MBS exceeded supply.

Although mortgage rates are quite low, the spread between one- and five-year mortgage rates remained at 225 basis points for the quarter. Moreover, consumers are now accepting that interest rates will remain low, and therefore hav little incentive to finance on a five year term. This, in turn, has limited the supply of residential mortgages which are economical for pooling into MBS. The introduction of direct lending has also limited the supply of new social housing pools.

Following Canada's original Collateralized Mortgage Obligation (CMO) placement in April, two more CMO placements took place in the third quarter. On July 1, the second ever Cana dian CMO was issued for a total of $235 million. The third CMO transaction tool place on September 28 and totalled $129 million. Interest in this type of derivativ product should continue to develop into the future.

A CMO can be defined as a multiple-term, mortgage-backed bond that contains a sequential pay feature. Typically, a CMO consists of several classes of secu rities, each with a different maturity. Th holders of the class of security that has the earliest maturity date within the CMO structure receive the prepayments and interest payments in excess of the amounts required to meet the interest obligations of the offering. Once this class of security is retired, prepayments are directed to the next class of security due to be paid and so on, until the entire issue is completely retired.

HOW DO MORTGAGE BACKED SECURITIES COMPARE TO GOVERNMENT OF CANADA BONDS

Mortgage Backed Securities (MBS) are unique fixed-income instruments. Although they offer a similar high level of security as Government of Canada Bonds (GOCs), they differ from these conventional bonds in a number of ways.

There are some privately created MBS pools, but the vast majority of MBS are NHA backed product which guarantee timely payment of principal and interest. NHA-MBS are offered in various maturities from 3 months to 25 years with 5 year terms comprising almost 90 per cent of the total issued.

Since MBS were introduced under the National Housing Act (NHA) in 1987, $19 billion has been issued, over $15 billion of which is still outstanding. The NHA-MBS market is relatively small compared to the Government of Canada Bond (GOC) market, but, even so, NHA-MBS are still highly liquid.

There are four main differences between NHA-MBS and GOCs: (1) NHA-MBS provide a monthly payment stream, while GOCs provide a semi annual payment; (2) The payment stream for NHA-MBS is comprised of both principal and interest, the payment stream for GOCs is comprised of interest only; (3) the yield for NHA-MBS is higher than GOCs; and, (4) NHA-MBS may face uneven cash flows due to unscheduled principal prepayment.

Monthly Payment Stream

The payment stream represents the key difference between GOCs and NHA-MBS. GOCs offer a constant semi-annual coupon and a lump-sum principal payment at maturity, while NHA-MBS pay both principal and interest on a monthly basis and pay the remaining outstanding principal balance at maturity. Although the cash flow is similar to that of the underlying mortgages, there is a difference. The MBS payments are based on the coupon rate of interest for the issue and not the mortgage interest rate of the underlying mortgages.

The flow of funds through NHA-MBS is affected by many of the same factors which affect the flow of mortgage payments. With each monthly payment, the proportion of principal to interest will increase. As well, a pool which has mortgages with shorter average remaining amortization will pay proportionately more principal over the life of the security and the remaining outstanding principal balance will be smaller at maturity than a pool with longer average amortization.

Higher Yield

The monthly receipt of principal generates some uncertainty with regard to return. Principal received on a monthly basis would need to be reinvested to continue generating a return, and the rate of return available may be higher or lower than what the original NHA-MBS was offering. As a result, NHA-MBS enjoy a premium over the GOC to compensate for return uncertainty. The spread over GOCs has been as high as 100 basis points and as low as 26 basis points but typically varies in the range of 60 to 90 basis points.

Unscheduled Principal Prepayment

Regulations governing NHA-MBS attempt to create homogeneous pools with regard to the range of remaining amortization, mortgage rates, and mortgage size relative to pool size. There are four classes of MBS pools: Residential Homeowner, Social Housing, Multi-Family Residential, and Mixed (a combination of any two of the previous three). Residential homeowner pools makes up about 55 per cent of total value of NHA-MBS outstanding and Social Housing pools make up about 41 per cent.

These four classes of pools fall into two broader distinctions: those which have mortgages with prepayment options, referred to as open or prepayable pools; and those without prepayment options, known as closed or non-prepayable pools. There is a trade-off between closed and open pools. Closed pools offer a predictable payment stream. Open pools, on the other hand, face an uneven payment stream and as a result offer an enhanced yield over GOC. The yield spread between open and closed pools typically varies between 15 to 25 basis points.

The level of prepayment has a direct impact on both the return over the life of the MBS and on pricing in the secondary market. A higher level of prepayment will advance the receipt of principal. Prepayment will vary depending on such things as the prepayment options offered to the mortgagor, age of the pool, mortgage liquidation due to sale of home, mortgage rate movement, and default. Our October 1992 issue of Mortgage Market Trends discusses the Canadian experience with prepayment.

Quality of Investment

Both GOCs and NHA-MBS provide investors with a triple-A investment. GOCs benefit from the direct guarantee by the Government of Canada, while NHA-MBS are backed by the government through Canada Mortgage and Housing Corporation (CMHC). In addition to CMHC's timely payment guarantee, additional security is provided by the underlying NHA insured mortgages.

Note: Information circulars, available from your investment dealer, are produced for each individual NHA-MBS pool and contain all relevant pool information and prepayment provisions necessary to make an informed investment decision.

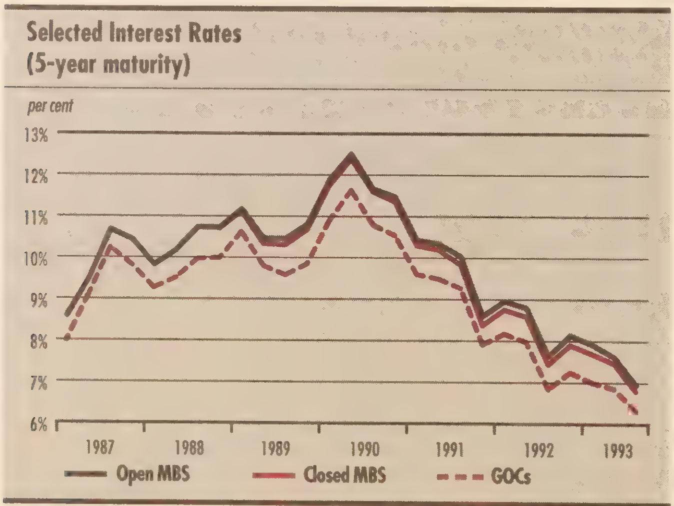
NHA MORTGAGE-BACKED SECURITIES

(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

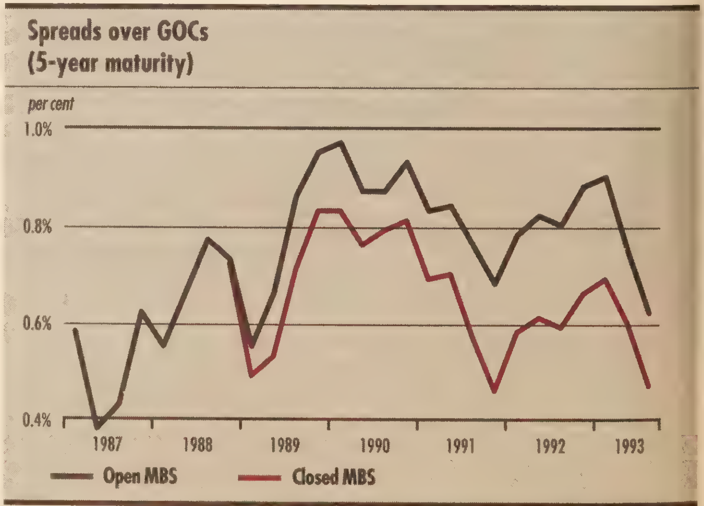
		1991	1992	1993	92Q4	93Q1	93Q2	93Q3
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	$7,603.1	$11,954.8	$15,423.3	$11,954.8	$13,532.4	$14,090.1	$15,423.3
	Units	771	1,102	1,372	1,102	1,209	1,295	1,372
Residential, single	$million	$4,713.4	$6,969.6	$8,208.0	$6,969.6	$7,803.5	$7,766.9	$8,208.0
	Units	453	646	802	646	717	753	802
Residential, multiple	$million	$51.4	$85.7	$356.4	$85.7	$242.2	$295.4	$356.4
	Units	6	5	10	5	6	8	10
Social Housing	$million	$2,654.1	$4,643.7	$6,602.0	$4,643.7	$5,224.9	$5,779.9	$6,602.0
	Units	304	435	538	435	469	516	538
Mixed	$million	$184.2	$255.8	$257.0	$255.8	$261.9	$247.9	$257.0
	Units	8	16	22	16	17	18	22
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	$3,187.4	$5,959.4	$5,008.6	$2,057.2	$1,912.0	$1,113.6	$1,983.0
	Units	282	388	330	128	118	103	109
Residential, single	$million	$1,800.9	$3,744.3	$2,525.3	$1,377.9	$1,110.8	$464.4	$950.1
	Units	148	243	200	83	80	51	69
Residential, multiple	$million	$20.1	$56.1	$273.5	$0.0	$157.8	$53.8	$61.9
	Units	2	1	6	0	2	2	2
Social Housing	$million	$1,197.3	$2,052.8	$2,165.6	$662.4	$631.8	$588.7	$945.1
	Units	125	136	118	43	35	49	34
Mixed	$million	$169.1	$106.3	$44.3	$16.9	$11.6	$6.6	$26.1
	Units	7	8	6	2	1	1	4
YIELDS (5-YEAR MATURITY, %)								
MBS Open		9.84	8.37	7.49	8.13	7.91	7.61	6.94
MBS Closed		9.67	8.16	7.31	7.90	7.69	7.46	6.79
MBS MMUF		9.76	8.28	7.41	8.00	7.78	7.54	6.92
MBS Hybrid		9.85	8.37	7.49	8.13	7.91	7.61	6.96
Mortgage rates		11.13	9.51	9.01	9.42	9.32	8.95	8.75
GOCs		9.07	7.56	6.72	7.24	7.00	6.85	6.32
SPREADS OVER GOC (5-YEAR MATURITY, %)								
Open		0.78	0.82	0.77	0.88	0.90	0.75	0.62
Closed		0.60	0.61	0.59	0.66	0.69	0.60	0.47
MMUF		0.69	0.72	0.69	0.76	0.77	0.69	0.60
Hybrid		0.78	0.82	0.77	0.88	0.90	0.75	0.64
Mortgage Rates		2.06	1.96	2.29	2.17	2.31	2.10	2.43

Not seasonally adjusted data.

Source: CMHC, Burns Fry Limited CMHC – MAC 1993



Source: Burns Fry Limited CMHC – MAC 1993



Source: Burns Fry Limited CMHC – MAC 1993

CMHC MORTGAGE MARKET

TRENDS

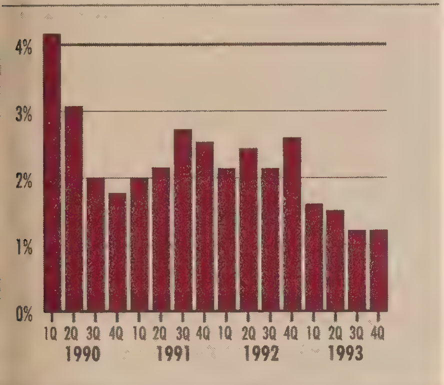
MARKET ANALYSIS CENTRE FIRST QUARTER 1994

MORTGAGE LENDING

MORTGAGE CREDIT TO EXPAND SLIGHTLY FASTER IN 1994

The year 1994 should see continued modest growth of mortgage credit although faster than in 1993. The very gradual pace of expansion last year – with a total rise in credit of 5.4 per cent – reflected weak housing markets and cautious consumers.

Residential Mortgage Credit Growth*
(from previous quarter)



* nominal e: estimate
Source: Bank of Canada, CMHC CMHC – MAC 1994

Market Share of Residential Mortgage Credit

	4Q92	3Q93	4Q93e
Banks	44.7%	48.6%	50.6%
Trust	25.2%	20.6%	18.1%
Caisses & Co-op	13.5%	13.8%	13.9%
Life	7.2%	7.0%	7.0%
Pension Funds	3.1%	3.0%	3.1%
Fin. & Loan	6.3%	7.2%	7.4%

e: estimate
Source: Bank of Canada CMHC – MAC 1994

For 1994, CMHC forecasts slightly stronger activity on the new construction and resale markets, while prices in both markets should rise marginally as well. As a result, mortgage credit is projected to expand in the 8-9 per cent range this year.

For mortgage credit to expand faster, consumers would have to become much more willing to add to their mortgages. Consumer confidence will not surge until the economy and the job market improve further.

In the closing quarter of 1993, mortgage credit outstanding reached an estimated $308.5 billion, up 1.2 per cent from the previous quarter.

The pace of credit expansion is tied to housing market activity, which, during the fourth quarter, showed only marginal improvement in both resale and new construction.

Total output for the year in both markets was affected by the setback experienced in the early months of 1993. As a result, total starts for the year dropped by 7.6 per cent to 155,443 units. Sales of existing homes through the Multiple Listing Service (MLS)[1] were down 7.7 per cent to 302,000 units.

House prices edged up only slightly during the year, with the New House Price Index rising by 1.2 per cent, while the average MLS price increased 1.8 per cent. These marginal gains reflect the mostly stable prices across the country, along with big price jumps in the Vancouver and Victoria markets.

An increasing portion of mortgage credit originated with the chartered banks over the past year, and this trend continued during the closing months of 1993. By the fourth quarter, chartered banks held 50.6 per cent of total credit outstanding. This was up from 48.6 per cent three months earlier, and from the 44.7 per cent share held at the end of 1992. The increase was largely due to the fact that several banks acquired trust companies during the year. Canadian trust companies, in the meantime, have seen their portion of mortgage credit decline. By year end, the trusts held 18.1 per cent of total credit, compared with 20.6 per cent three months earlier and 25.2 per cent at the end of 1992. Respective shares held by other institutions changed only marginally.

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

MORTGAGE MARKET OUTLOOK FOR 1994

Representatives of four of Canada's major lenders provide their views on the outlook for the Canadian mortgage market in 1994. The consensus view is for a moderate growth in mortgage lending activity. Job uncertainty will prevent the housing market from booming in spite of very low interest rates.

Gilles Soucy
Chief Economist,
La Confédération des caisses populaires et d'économie Desjardins du Québec

Even with the acceleration of the Canadian economy in 1993, the number of housing starts has declined. In 1992, 168,000 starts were recorded compared to an approximate figure of 155,000 last year. Thus, government incentives and low interest rates proved insufficient to dispel the consumers lack of confidence in the economy.

Household confidence is a determining factor in the decision to purchase a house. To date, however, households have not really felt the benefits of the recovery. This growth combined with major productivity gains is an indication that companies have made a sustained effort to become more competitive. The corporate rationalization has affected workers who fear for their job and are often forced to accept sizable wage concessions. Income and other tax increases have only served to worsen this discomfort. In such a climate, it is hardly surprising that Canadians are still hesitant before buying or changing houses.

In light of a generally improving economic climate, a modest increase in housing starts can be expected in 1994 but no major gains should be anticipated. The recovery is well underway, and recent trends point to a GDP increase of around 3.5 per cent.

Even with only a small improvement in labour markets, consumers will gladly welcome the fact that the worst is over with a promise of better days ahead.

The lost opportunities of 1993 will be partly compensated by Canada's housing starts rising to 170,000 units this year. A better economic environment combined with low interest rates along with average house price decreases over the several past years in a number of areas will promote homeownership. The large stock of unsold units and high vacancy rates in several areas will moderate any increase in housing starts. In Québec, for instance, the vacancy rate in structures of three and more units exceeds 6 per cent in urban centres even if the number of housing starts has decreased steadily over the past six years.

Lending will be supported by the lowest mortgage rates in more than three decades.

Gilles Soucy, Caisses Populaires

Given increased new housing construction and higher transaction volumes in the resale market, demand for residential mortgage funds will rise by approximately 10 per cent in 1994, after slowing down to only 5 per cent in 1993. Lending will be supported by the lowest mortgage rates in more than three decades. Low interest rates will promote the financing of new units and will also stimulate the renovation sector which is just as important as new construction.

With an inflation rate of 2 per cent or less combined to an expansionary monetary policy, the one-year mortgage interest rate will hover between 5.75 per cent and 6.25 per cent this year, while the five-year rate will range from 7.25 per cent to 8 per cent. Mortgage interest rates will be lowest during the first half of the year but they will be affected subsequently by an increase in US interest rates. This anticipated increase will be modest, however, and will only have a slight effect on the residential construction and renovation industries.

At this stage in the business cycle, both the lower cost of credit and more affordable home prices will make ownership more attractive. Moreover, let's hope that the anticipated improvements in economic conditions and the employment picture in 1994 will be sufficient to convince consumers that recovery is for real and that the time is right for home buying.

Bob Overholt
Vice-President,
Personal Lending Services
Canada Trust

Mortgage volumes are improving! Forecasts for 1994 suggest housing starts will increase approximately 10 per cent over that achieved in 1993 with re-sale market increasing approximately 6 per cent over volumes achieved in 1993. We are not about to enter a year of "booming" activity in the housing industry but all signs indicate the industry is about to show growth again. That's good news!!

Why won't we see 15-20 per cent gains in homes built or sold in the new or re-sale market? The reasons are obvious: Consumers have been forced to re-visit their economic priorities like never before. Real income has not grown for the past two years. General concerns over unemployment, corporate restructuring, business mergers, cutbacks, and re-engineering processes have impacted many Canadians. The fiscal position of provincial and federal governments has caused uncertainly as to future tax increases and reduced funding of the social programs. There is good news however. Our dollar appears to have settled at a level which

will sustain export business. That means more Canadian jobs. Interest rates, at record lows, are expected to encourage buyers to enter the market in both new and resale markets.

There is general consensus that rates are at bottom, as are house prices in most parts of the country.

We can expect to see modest growth for all in the industry with market share growth going to companies who "Think Like Customers" and serve these customers well with innovative product, relationship pricing and service as not seen before.

Quality service from application to administering the mortgage through the term is key to success for mortgage lenders. State of the art processing will be required to serve the needs for the consumer in 1994 and beyond. Consumer pressure for maximum flexibility in mortgage transactions generally is accepted as the norm. We expect continued emphasis on product innovation as well as continued aggressive pricing.

Some specific trends to look for include increased activity in the securitization process along with:

- continued demand from those who have contracted "high rate mortgages" for re-negotiation of contract terms.
- continued movement to longer terms on mortgages (beyond 5 years) as consumers look to lock in low rates.

It will be a year of turnaround with sustained gradual growth through 1994 and beyond. We look forward to playing a meaningful role in the supply of funds to this most important segment of the Canadian economy.

Warren Jestin

Senior Vice President and
Chief Economist
Scotia Bank

The Canadian economy should continue building momentum during 1994, with housing starts moving up to 168 thousand units. Residential activity will be supported by the lowest mortgage rates in nearly three decades and by strong international immigration. Most of the improvement will occur in Ontario, with a revival in private sector construction more than offsetting a further scaling back of socially assisted building. Activity in British Columbia and Alberta is expected to remain fairly buoyant.

While affordability and demographic trends support an increase in activity, job uncertainty will continue to hold back many potential buyers. Even with an acceleration in hirings, Canada's unemployment rate will be stuck in double-digit territory. Income will be squeezed by minimal wage gains and relentlessly rising government levies. In this environment, debt-heavy households will be understandably cautious about making big-ticket purchases.

For potential buyers with the financial resources, 1994 may be the year to move off the sidelines.

Warren Jestin, Scotia Bank

The degree of pick up in construction also will be tempered by excessive levels of unoccupied single family and multiple units in many locations. There is a large overhang of resales across the country and apartment vacancy rates are well above historical norms in most cities. Residential markets will move into better balance this year, but the improvement is likely to be gradual.

For potential buyers with the financial resources, 1994 may be the year to move off the sidelines. Mortgage rates are already at or near their cycle lows and real estate prices also appear to be stabilizing as the recession recedes. While any rise in home prices will probably be modest in our low inflation/slow growth environment, affordability is unlikely to get much better.

T.R. Alton

President,
Bank of Montreal Mortgage Corporation

Better days are ahead for Canada's housing markets. Affordability is more attractive than it has been in many years with interest rates at a 30-year low and virtually no inflation and no inflation on the horizon.

The outlook for interest rates, particularly the more important longer term rates of interest, is for further declines.

There may be volatility along the way from political events, i.e. Quebec Provincial election, and the attack on our debt and deficits, but the trend to lower rates will continue. There is opportunity for longer term Canadian rates to narrow the spread over U.S. rates.

The key five-year mortgage rate will decline to around 7 per cent in 1994 while the shorter term six-month rate of 5.75 per cent will show a more modest decline, thus narrowing the spread between shorter and longer term rates. With the flattening of the yield curve, there will be more attention given to mortgages with terms longer than five years.

These lower rates of interest will increase affordability for first-time buyers and will improve consumers debt servicing levels as they renew mortgages at lower rates of interest. This will give consumers the financial capacity to buy a new home or to renovate their existing home notwithstanding the relatively high level of consumer debt that exists.

All in all, there will be opportunities in the housing market for increased levels of activity in the following segments:

- first time buyers
- move up buyers
- renovation
- seniors

Consumers today are very value conscious in the purchase and financing of their home.

LOW INTEREST RATES TAKE SOME STING OUT OF HIGH MORTGAGE DEBT

Although Canadians have seen their mortgage debt load rise steadily throughout the 1990s, tumbling interest rates have made the burden easier to bear.

At the close of 1993, mortgage debt was 68 per cent of disposable income, an increase of 9 percentage points since the 1990 year-end. However, because of low mortgage rates, the cost of servicing that debt went down. The servicing cost (based on prevailing one-year mortgage rates) was down to 4.7 per cent of disposable income in 1993 and slipped further to less than 4 per cent at the start of 1994. The 1990 cost at 7.9 per cent of disposable income was significantly higher.

Contrast with the early 1980s

The rise of the mortgage debt load over the past three years contrasts sharply with developments at a similar point in the business cycle during the early 1980s. At that time, mortgage debt fell almost 9 percentage points in a three-year period, from 53.0 per cent of disposable income in 1979 to 44.3 per cent in 1982. And it remained at around that level for the next three years. But this doesn't mean that homeowners of the 1980s were so much better off than those of the 1990s. Their incomes were certainly higher, but so were mortgage rates, which proved a major disincentive to high debt.

There are three main reasons for the sharp difference in mortgage debt levels during the 1980s and 1990s. First, the recovery of the 1980s was much stronger than the current one. The buoyant economy drove personal disposable income up by 16.7 per cent in 1980 and 10.6 per cent in 1981. This rise in income resulted from significant real growth, supportive fiscal policies and high inflation. In the current recovery, limited real growth, decelerating inflation and a tightening of fiscal policies has slowed the pace of personal disposable income. As a result, the period 1991 to 1993 saw personal disposable income rise by only 2.5 per cent per year.

The second reason for the quick drop in mortgage debt in the early 1980s was the very high level of mortgage rates at the time. The five-year rates averaged 14.3 per cent in 1980, 18.2 per cent in 1981 and 17.9 per cent in 1982. Those costly rates caused consumers to avoid new borrowings and to repay existing debt as quickly as they could. As a result, mortgage credit rose only 0.7 per cent in 1982, following 20 years of almost continuous double-digit increases. By contrast, the current low rates minimize the pressure to repay debt.

A third factor is the difference in the severity of the housing recessions during the two periods. The late 70s and early 80s saw the housing industry go into a deep slump so that in 1982 housing starts fell to a 20-year low of 125,860 units. In the current cycle, the low point was less pronounced, with 155,443 units started in 1993. The lower rate of new construction in the earlier period meant there was less mortgage debt outstanding at the beginning of that decade's recovery.

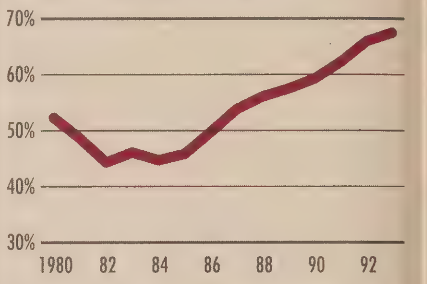
Is the mortgage debt load worrisome?

Not really. The current debt load is also due to the rise in value of housing stock. If we look at mortgage debt in relation to what houses are worth, we see that the difference between now and the 1980s is not that great. In 1992, mortgage debt represented 55 per cent of housing value; in 1979, it was 50 per cent.

We must also keep in mind that more of consumers' liabilities nowadays are in the form of mortgages rather than other loans.

The mortgage debt load reaches a new high...

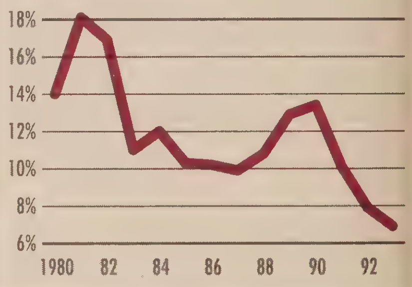
(Mortgage debt as a % of disposable income)



Source: Statistics Canada; CMHC — CMHC – MAC 1994

... But falling mortgage rates...

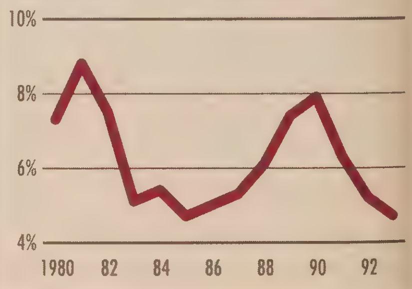
(One-year mortgage rate in %)



Source: Statistics Canada; CMHC — CMHC – MAC 1994

... Cut into servicing costs.

(Mortgage interest as a % of disposable income)



Source: Statistics Canada; CMHC — CMHC – MAC 1994

NHA Mortgage-Backed Securities Fourth Quarter Issues

October 1993 to December 1993

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: October 1993						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96408844	LONDON LIFE INSURANCE CO.	10,001,329.92	7.125	October 01, 1998	8.71	18.92
96408968	HOUSEHOLD TRUST COMPANY	20,054,937.39	6.500	October 01, 1998	8.40	24.50
96408992	M.R.S TRUST COMPANY	7,530,225.99	6.625	October 01, 1998	8.24	22.83
96409008	LONDON LIFE INSURANCE CO.	15,032,871.85	6.875	October 01, 1998	8.69	24.83
96409024	LONDON LIFE INSURANCE CO.	5,003,249.57	6.875	October 01, 1998	8.72	14.17
96409032	FAMILY TRUST CORPORATION	3,872,932.02	6.375	September 01, 1998	8.88	22.50
96409131	NATIONAL TRUST COMPANY	43,711,346.85	6.750	September 01, 1998	8.94	24.50
96409149	SECURITY HOME MORTGAGE INV.COR	5,068,578.63	6.500	October 01, 1998	8.64	24.75
96409222	VANCOUVER CITY SAVINGS C.U.	14,637,128.87	6.875	October 01, 1998	8.79	24.25
96409230	VANCOUVER CITY SAVINGS C.U.	14,548,746.56	6.500	October 01, 1996	8.23	24.33
96409255	BANQUE NATIONALE DU CANADA	44,608,378.32	6.500	August 01, 1998	8.84	23.67
96409263	BANQUE NATIONALE DU CANADA	4,778,909.73	6.500	August 01, 1998	8.80	15.33
96409289	HOUSEHOLD TRUST COMPANY	5,078,183.97	6.375	October 01, 1996	8.08	24.58
96409297	FIRSTLINE TRUST COMPANY	2,074,159.07	6.500	November 01, 1996	7.73	17.42
96409305	FIRSTLINE TRUST COMPANY	5,938,770.75	6.500	December 01, 1996	7.79	22.75
96409347	FAMILY TRUST CORPORATION	2,386,199.94	6.750	October 01, 1998	8.40	24.50
96409370	FIRSTLINE TRUST COMPANY	11,873,390.25	6.625	December 01, 1998	8.23	22.33
96409388	FIRSTLINE TRUST COMPANY	3,972,942.14	6.625	December 01, 1998	8.43	22.25
96409396	FIRSTLINE TRUST COMPANY	2,867,740.54	6.625	December 01, 1998	8.17	16.92
96409404	FIRSTLINE TRUST COMPANY	2,839,912.00	6.000	December 01, 1996	7.64	22.92
96409412	WESTMINSTER SAVINGS C.U.	2,041,353.51	6.375	October 01, 1998	8.71	17.58
96409420	WESTMINSTER SAVINGS C.U.	6,501,689.93	6.375	October 01, 1998	8.56	21.42
96409438	FIRSTLINE TRUST COMPANY	2,139,743.98	5.500	December 01, 1995	7.01	17.50
96409446	FIRSTLINE TRUST COMPANY	2,986,667.26	5.500	December 01, 1995	6.99	22.67
96409453	FIRSTLINE TRUST COMPANY	7,446,178.23	7.500	December 01, 2003	8.91	22.08
96409495	FIRSTLINE TRUST COMPANY	2,532,933.84	6.500	December 01, 1998	8.08	16.42
96409503	FIRSTLINE TRUST COMPANY	7,919,488.73	6.500	December 01, 1998	7.99	22.42
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600135	PEOPLES TRUST COMPANY	50,136,874.69	6.500	October 01, 1998	7.82	24.50
96600143	MARITIME LIFE ASSURANCE CO.	43,654,978.00	5.250	October 01, 1998	7.77	27.50
SOCIAL HOUSING POOLS						
99005654	FIDUCIE DESJARDINS INC.	3,547,470.54	6.375	October 01, 1998	7.01	33.00
99005662	BANQUE NATIONALE DU CANADA	2,021,130.35	6.250	October 01, 1998	7.13	28.83
99005670	METROPOLITAN TRUST COMPANY	4,765,892.45	5.500	October 01, 1996	6.53	30.00
99005688	TORONTO-DOMINION BANK	11,264,667.00	6.750	October 01, 1998	7.33	35.00
99005704	TORONTO-DOMINION BANK	13,339,667.00	6.750	October 01, 1998	7.32	35.00
99005712	CIBC MORTGAGE CORPORATION	36,394,704.00	6.625	October 01, 1998	7.46	35.00
99005720	BANK OF NOVA SCOTIA	119,047,338.00	6.250	October 01, 1998	7.42	35.00
99005738	BANK OF NOVA SCOTIA	14,620,366.00	5.500	October 01, 1996	6.97	35.00
99005753	FIRSTLINE TRUST COMPANY	8,119,260.64	6.625	October 01, 1998	7.43	35.00
MONTH OF ISSUE: November 1993						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96409016	LONDON LIFE INSURANCE CO.	15,060,751.87	6.875	November 01, 1998	8.61	23.00
96409040	PACIFIC COAST SAVINGS C.U.	9,999,419.32	6.500	November 01, 1998	8.78	23.00
96409057	PACIFIC COAST SAVINGS C.U.	3,995,853.23	6.625	November 01, 1998	8.81	18.17
96409156	M.R.S TRUST COMPANY	14,972,546.99	6.750	November 01, 1998	8.13	22.50
96409248	PACIFIC COAST SAVINGS C.U.	3,996,188.56	6.250	November 01, 1996	8.27	23.75
96409271	LONDON LIFE INSURANCE CO.	2,328,406.97	7.500	November 01, 2000	9.04	18.58
96409313	LONDON LIFE INSURANCE CO.	4,994,142.01	6.625	November 01, 1996	8.01	23.08
96409321	LONDON LIFE INSURANCE CO.	2,627,241.06	7.875	November 01, 2003	9.27	23.08
96409461	BANQUE NATIONALE DU CANADA	4,913,554.41	6.625	September 01, 1998	8.74	15.33
96409479	BANQUE NATIONALE DU CANADA	36,612,298.43	6.625	September 01, 1998	8.75	23.33
96409487	SECURITY HOME MORTGAGE INV.COR	6,021,478.45	6.500	November 01, 1998	8.42	24.92
96409511	HOUSEHOLD TRUST COMPANY	24,989,643.78	6.500	November 01, 1998	8.35	24.75
96409537	CANADA TRUST COMPANY	100,306,966.05	6.375	November 01, 1998	8.68	23.25
96409545	WESTMINSTER SAVINGS C.U.	3,670,306.11	6.375	November 01, 1998	8.63	21.92
96409552	FIRSTLINE TRUST COMPANY	2,042,740.91	6.625	January 01, 1999	8.16	24.75
96409594	FIRSTLINE TRUST COMPANY	5,423,837.74	5.750	January 01, 1997	7.54	23.42
96409602	FIRSTLINE TRUST COMPANY	2,568,488.43	6.375	January 01, 1999	8.05	14.58
96409610	FIRSTLINE TRUST COMPANY	6,905,101.49	6.375	January 01, 1999	8.06	19.33

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS) cont'd						
96409628	FIRSTLINE TRUST COMPANY	6,910,245.19	6.375	January 01, 1999	8.00	23.58
96409636	HOUSEHOLD TRUST COMPANY	9,962,927.85	6.375	November 01, 1998	8.19	24.92
96409669	FIRSTLINE TRUST COMPANY	2,274,997.43	6.625	May 01, 1999	8.09	9.25
96409677	FIRSTLINE TRUST COMPANY	5,875,765.04	6.625	May 01, 1999	8.09	12.25
96409685	FIRSTLINE TRUST COMPANY	17,099,563.27	6.625	May 01, 1999	8.07	16.00
96409693	FIRSTLINE TRUST COMPANY	50,857,035.74	6.625	May 01, 1999	8.06	19.67
96409701	FIRSTLINE TRUST COMPANY	93,914,187.39	6.625	May 01, 1999	8.04	24.00
SOCIAL HOUSING POOLS						
99005696	TORONTO-DOMINION BANK	79,585,906.51	5.875	November 01, 1996	6.50	33.33
99005746	FIDUCIE DESJARDINS INC.	2,784,277.00	6.625	November 01, 1998	7.21	35.00
99005779	TORONTO-DOMINION BANK	3,079,084.71	6.375	November 01, 1998	7.02	35.00
99005787	TORONTO-DOMINION BANK	6,521,983.00	6.375	November 01, 1998	6.93	35.00
99005803	CIBC MORTGAGE CORPORATION	4,183,200.00	5.000	November 01, 1996	6.24	35.00
99005811	BANK OF NOVA SCOTIA	6,000,928.20	5.750	November 01, 1998	6.99	34.42
MONTH OF ISSUE: December 1993						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96409339	M.R.S TRUST COMPANY	10,022,146.34	6.500	December 01, 1998	7.94	22.50
96409354	LONDON LIFE INSURANCE CO.	10,011,149.03	7.125	December 01, 1998	8.43	24.42
96409362	LONDON LIFE INSURANCE CO.	10,003,256.32	7.125	December 01, 1998	8.39	19.08
96409560	SUN LIFE TRUST COMPANY	20,006,597.03	6.625	November 01, 1998	8.40	24.50
96409578	FAMILY TRUST CORPORATION	2,680,425.20	6.125	January 01, 1999	8.16	19.67
96409586	FAMILY TRUST CORPORATION	2,655,742.44	6.125	December 01, 1998	7.96	24.00
96409644	HOUSEHOLD TRUST COMPANY	4,911,868.95	6.250	December 01, 1998	7.82	25.00
96409651	LONDON LIFE INSURANCE CO.	4,368,744.56	5.750	December 01, 1996	7.97	23.83
96409719	METROPOLITAN TRUST COMPANY	2,508,487.56	6.375	November 01, 1998	8.69	22.17
96409727	VANCOUVER CITY SAVINGS C.U.	21,971,973.36	6.375	November 01, 1998	8.68	24.17
96409743	LONDON LIFE INSURANCE CO.	16,714,357.32	6.500	December 01, 1998	8.11	22.50
96409750	SECURITY HOME MORTGAGE INV.COR	2,032,038.16	6.375	December 01, 1998	8.18	24.75
96409776	BANQUE NATIONALE DU CANADA	4,567,109.01	6.375	October 01, 1998	8.60	15.67
96409784	BANQUE NATIONALE DU CANADA	27,584,003.15	6.375	October 01, 1998	8.60	23.33
96409792	HOUSEHOLD TRUST COMPANY	5,054,520.76	5.375	December 01, 1996	7.87	24.33
96409800	HOUSEHOLD TRUST COMPANY	7,591,826.07	6.375	December 01, 1998	8.61	24.08
96409818	HOUSEHOLD TRUST COMPANY	14,999,558.71	6.375	December 01, 1998	7.94	24.58
96409826	FIRSTLINE TRUST COMPANY	2,985,739.30	5.125	February 01, 1996	6.90	22.25
96409834	FIRSTLINE TRUST COMPANY	5,998,551.59	5.625	February 01, 1997	7.02	23.08
96409842	SECURITY HOME MORTGAGE INV.COR	2,483,957.75	6.000	December 01, 1998	8.03	25.00
96409859	HOUSEHOLD TRUST COMPANY	10,627,736.11	6.250	December 01, 1998	7.51	24.75
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600150	PEOPLES TRUST COMPANY	27,251,142.56	6.500	December 01, 1998	7.67	25.42
96600168	FIRSTLINE TRUST COMPANY	77,707,184.70	7.125	December 01, 2003	7.63	0.83
SOCIAL HOUSING POOLS						
99005761	BANQUE NATIONALE DU CANADA	2,292,472.44	6.125	December 01, 1998	7.17	28.67
99005795	CIBC MORTGAGE CORPORATION	107,470,357.95	4.750	December 01, 1996	5.85	33.17
99005829	FIDUCIE DESJARDINS INC.	2,253,553.00	6.250	December 01, 1998	6.76	35.00
99005837	BANK OF MONTREAL	4,017,907.09	6.125	December 01, 1998	6.70	30.00
99005845	TORONTO-DOMINION BANK	5,232,480.00	6.375	December 01, 1998	6.89	35.00
99005878	CIBC MORTGAGE CORPORATION	50,406,373.00	6.125	December 01, 1998	6.94	35.00

INDICATORS OF MORTGAGE LENDING ACTIVITY

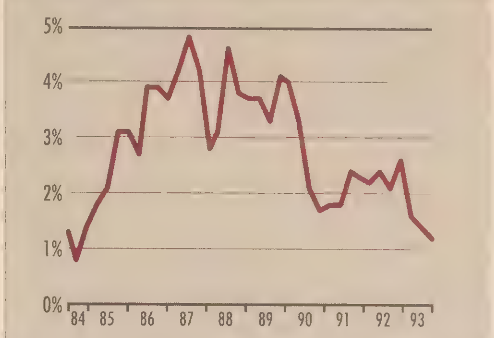
Mortgage Credit Outstanding[1] (in millions of dollars)

	1991	1992	1993e	93Q1	93Q2	93Q3	93Q4e
TOTAL	258,153	282,372	302,936	297,068	301,310	304,816	308,505
% change	8.3	9.4	7.3	1.6	1.4	1.2	1.2
Banks	108,767	123,567	146,507	139,705	142,260	148,005	156,061
Trust Co.	75,283	74,512	63,334	67,728	67,279	62,643	55,684
Caisses & CO-OP	33,386	38,121	41,506	40,233	41,073	41,904	42,813
Life Ins. Co.	17,692	20,002	21,314	21,242	21,114	21,304	21,597
Pension Funds	8,771	8,992	9,154	9,042	8,999	9,153	9,422
Fin. & Loan	14,254	17,178	21,120	19,278	20,462	21,813	22,928

(1) Seasonally Adjusted Data (e) Estimate

Source: Bank of Canada, CMHC *CMHC – MAC 1994*

Residential Mortgage Credit Growth
(in per cent)



Source: Bank of Canada; CMHC *CMHC – MAC 1994*

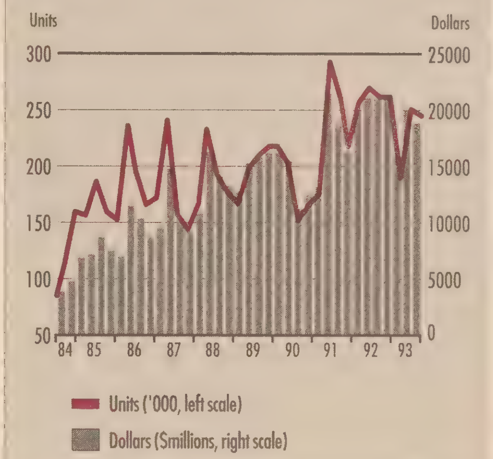
NHA and Conventional Loans Approved[1]

		1991	1992	92Q3	92Q4	93Q1	93Q2	93Q3
TOTAL	$ millions	70,059	83,295	20,988	21,317	15,903	19,935	18,866
	Units	962,356	1,052,574	262,522	262,708	190,618	251,218	245,282
NHA	$ millions	15,370	23,208	5,969	5,179	5,031	7,298	6,448
	Units	83,314	255,730	65,702	57,265	57,682	82,303	71,686
Conventional	$ millions	54,689	60,087	15,019	16,138	10,877	12,637	12,418
	Units	779,042	796,844	196,820	205,443	132,936	168,915	173,596
By Type of Lender								
Banks	$ millions	38,213	50,483	12,766	14,110	10,097	12,176	10,586
	Units	473,868	589,507	147,816	159,236	113,980	146,727	122,771
Trust Co.	$ millions	15,692	17,372	4,694	3,807	2,587	3,493	3,800
	Units	237,216	239,910	65,011	51,364	33,425	49,269	50,214
Life Ins. Co.	$ millions	5,044	4,657	803	949	784	1,123	1,048
	Units	94,333	77,875	13,707	16,721	13,608	17,368	17,652
Others	$ millions	11,110	10,783	2,725	2,451	2,435	3,143	3,432
	Units	156,939	145,282	35,988	35,387	29,605	37,854	54,645

(1) Not Seasonally Adjusted at Annual Rate

Source: CMHC *CMHC – MAC 1994*

NHA and Conventional Approvals



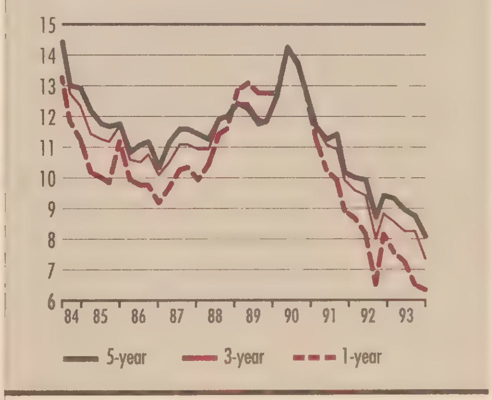
Source: CMHC *CMHC – MAC 1994*

Mortgage Rates (Average of period)

	1991	1992	1993	92Q4	93Q1	93Q2	93Q3	93Q4
1-Year Mortgage Rate	10.08	7.87	6.91	8.15	7.55	7.25	6.50	6.33
3-Year Mortgage Rate	10.90	8.95	8.10	8.82	8.55	8.25	8.25	7.35
5-Year Mortgage Rate	11.13	9.51	8.78	9.42	9.32	8.95	8.75	8.08

Sources: Bank of Canada, CMHC *CMHC – MAC 1994*

Mortgage Rates *(per cent)*



Source: Bank of Canada *CMHC – MAC 1994*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Marc Pellerin, Capital Markets Economist, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 495-2199.

Mortgage Market Trends is a quarterly publication. Enquiries regarding subscription should be directed to:
Canada Communication Group-Publishing,
Ottawa, Canada K1A 0S9.
Tel.: (819) 956-4802; Fax: (819) 994-1498.

Annual subscription (4 issues) $44. + GST – Catalogue No. NH12-8E.
Single issue $11. + GST – Catalogue No. NH12-8-1994-1E.

Cette publication est aussi disponible en français sous le titre SCHL – Tendances du marché hypothécaire – LNH 6109 1T/94

ISSN 1188-4215
Printed in Canada

CMHC offers a wide range of housing-related information. For details, contact your local CMHC office.

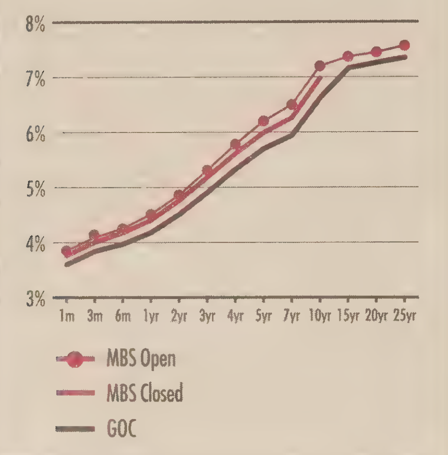
CMHC subscribes to Canada's Green Plan. Quantities of our publications are limited to market demand; updates are produced only when required; and recycled or environmentally friendly stock and environmentally safe inks are used wherever possible.

NHA MORTGAGE-BACKED SECURITIES

TOTAL VALUE OF NHA MBS ISSUES STAYS ABOVE $1.5 BILLION

The last three months of 1993 saw the issuance of 98 new pools of National Housing Act mortgage-backed securities (NHA MBS) for a total value of $1,571.3 million.

NHA Mortgage-Backed Securities Yield Analysis – *December 31, 1993**



* Bid Side
Source: Burns Fry Limited CMHC – MAC 1994

NHA Mortgage-Backed Securities Yield Analysis – *Market close, January 26, 1994**

GOC description: Coupon Rate	GOC description: Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
4.75%	03/96	Open	34	4.52%
6.50%	08/96	Open	36	4.85%
7.50%	07/97	Open	43	5.32%
7.50%	07/97	Closed	23	5.12%
6.50%	09/98	Open	44	5.77%
6.50%	09/98	Closed	22	5.55%
7.25%	06/03	Open	55	6.90%

* Bid Side
Source: Telerate; average for MBS traders CMHC – MAC 1994

This compares with 109 pools of NHA MBS totalling $1,983 million issued during the third quarter of 1993. The decline was mostly due to a drop in social housing issues. These fell to $486.9 million in the fourth quarter from an exceptionally high third-quarter level of $945.1 million. Activity was particularly strong in July, when issuers wanted to market their social housing pools before the direct-lending program starts on August 1. Since then, virtually all social housing loans (new and renewals) have been directly funded by CMHC.

The easing in the pace of new issues also stems from relatively sluggish mortgage financing of the private housing sector over the past six months. (See page 1 article for details.) The volume of new issues for single-detached dwellings dropped $64.5 million to $885.6 million during the fourth quarter. Slow lending activity since the beginning of the year is also responsible for low inventories of seasoned mortgage loans eligible for pooling. Indeed, for five-year terms, issuers may include NHA loans in a new pool as long as the loans are not more than six months old.

An additional factor contributing to the relatively low level of MBS activity is that a significant share of new loans and renewals have been for terms of less than five years. Many borrowers now favour short-term loans because rates are temptingly low. Issuers, however, use the NHA MBS program almost exclusively for maturities that are five years or more to make up for the issuance costs. At 5.75 per cent, one-year mortgage rates are at their lowest levels since they were first introduced in 1980. The five-year rate is 7.25 per cent, the lowest level since September 1965, but still, a full 150 basis points higher than the one-year mortgages.

The slower pace in new issues, combined with strong investor appetite for MBS, has narrowed the yield spread between MBS and Government of Canada Bonds. The yield on five-year non- prepayable pools was 29 basis points higher than that of GOCs at the end of 1993. By comparison, the spread was 47 basis points last September and 70 basis points a year ago. The yield spread also narrowed on five-year prepayable pools, declining to 50 basis points in December, compared with 92 basis points at the end of 1992. The spreads are at their lowest level since the NHA MBS were created in 1987.

The demand for new prepayable pools is particularly high because low interest rates have reduced the risk of high prepayments. This pleases investors since they usually prefer not to receive early prepayments. To do so means having to reinvest the proceeds at a lower rate. Indeed, the bulk of refinancing on mortgages pooled into NHA MBS took place in 1992 and 1993 when interest rates were declining. To spark a new round of refinancing on 1993 issues, five-year mortgage rates would have to drop to about five per cent.

The year 1993 as a whole saw 428 NHA MBS pools issued for a total value of $6,579.8 million. This compares with the 1992 figures of 388 new issues for $5,959.4 million. The continued success of NHA MBS brought the total amount outstanding at the end of 1993 to $16,308.2 million (1,415 units), compared with $11,954.8 million (1,102 units) at the end of 1992.

NEW INDEXES SHOW NHA-MBS OUTPERFORM GOCs

Which offers a better return on investment: National Housing Act Mortgage-backed Securities (NHA-MBS) or Government of Canada bonds (GOCs)? This question can be tricky to answer because of significant differences in the way the two investment instruments work and the complexity of calculating the full return for MBS. Now here's a new tool to help with the process — total return indexes that show at a glance how the NHA-MBS have performed over time, taking all the relevant factors into account. The indexes clearly demonstrate that, throughout the 1990s, NHA-MBS consistently delivered higher returns than GOCs.

Comparing NHA-MBS and GOCs on the basis of yield alone, as investors often do, can be like comparing apples and oranges. MBS yields have indeed been higher than GOCs with equivalent terms, but this only tells part of the story. There are many other aspects to return-on-investment, particularly in the case of MBS which deliver monthly payments of both principal and interest. To continue earning return, people must reinvest the principal. They must also consider unscheduled principal prepayments if they're investing in an open MBS pool. Thus, calculations of total return for MBS must take into account interest income, price gains, returned principal and reinvestment income from the returned principal. Calculations of total return for conventional government bonds need only consider interest income and price gains.

The total return indexes for NHA-MBS developed by two investment dealers—Wood Gundy Inc. and Burns Fry Ltd.—take all these variables into account. The indexes provide a performance benchmark for the different classes of NHA-MBS and are available for various terms to maturity.

In this issue of *Mortgage Market Trends*, we will look at how the indexes measure social housing closed pools of MBS. A forthcoming issue will present the indexes findings for residential open pools.

A Variety of Indexes

Wood Gundy has six different indexes to cover MBS issues with different terms. There is a composite index which considers all pools that have more than one year remaining before maturity. This is then broken down into five sub-indexes which vary by remaining term to maturity—from one to two years, two to three years, three to four years, four to five years and over five years.

The Burns Fry indexes reflect three broader categories. There is a short index which looks at all pools with one to five years remaining to maturity; a mid-range index which examines pools with five to ten years remaining; and an overall, or universal, index which considers all pools with more than one year remaining. Although Burns Fry has no index for terms greater than 10 years, the universal index does take such pools into account. However, since the remaining term for most closed NHA-MBS is less than five years, the short and universal indexes provide very similar results.

Comparing Wood Gundy's composite index with the Burns Fry universal index reveals a slight difference in year-over-year return. This discrepancy is due to different assumptions used to calculate such factors as return from reinvested principal and pricing. Regardless of which index you look at, however, it's clear that NHA-MBS have performed much better than comparable GOCs.

The following charts demonstrate this fact. Chart 1 presents Wood Gundy's composite MBS index against an index measuring performance of a portfolio of comparable GOCs. The second chart compares Burns Fry's universal MBS index with a more general index for one-to-five-year GOCs. Both charts tell essentially the same story – for the past four years, NHA-MBS have consistently come out ahead. For instance, Wood Gundy's and Burns Fry's composite index indicate a return of about 15.2 per cent in 1993 in comparison with 12.6 to 13.0 per cent for equivalent term GOCs.

Table 1. WOOD GUNDY INDEX

	1989	1990	1991	1992	1993
Return on MBS Composite Closed Index (per cent)	11.46	10.64	19.62	8.85	15.16
Return on Comparable Government of Canada Index (per cent)	11.68	10.17	18.03	8.20	12.93
Difference between MBS Composite and Comparable Canadas (basis points)	-22	+47	+160	+65	+223

Source: Wood Gundy Inc. CMHC – MAC 1994

Table 2. BURNS FRY INDEX

	1990	1991	1992	1993
Return on MBS Universal Closed Index (per cent)	10.51	20.64	8.61	15.20
Return on 1-5 year Government of Canada Index (per cent)	10.40	17.17	8.42	12.58
Difference between MBS Universal and 1-5 year GOC Index (basis points)	+11	+347	+19	+262

Source: Burns Fry Ltd. CMHC – MAC 1994

NHA MORTGAGE-BACKED SECURITIES

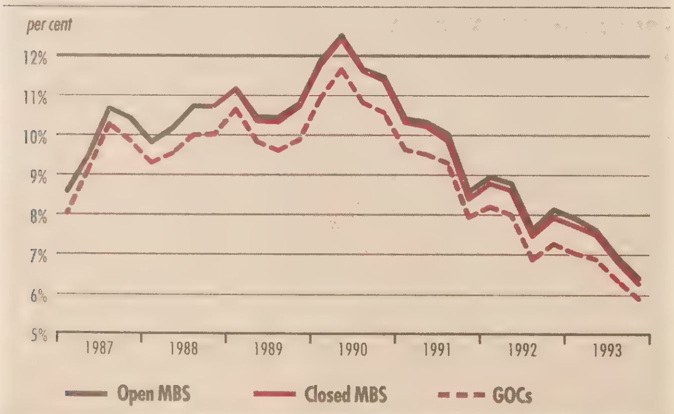
(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

		1991	1992	1993	93Q1	93Q2	93Q3	93Q
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	7,603.1	11,954.8	16,308.2	13,532.4	14,090.1	15,423.3	16,308.
	Units	771	1,102	1,415	1,209	1,295	1,372	1,41
Residential, single	$million	4,713.4	6,969.6	8,623.4	7,803.5	7,766.9	8,208.0	8,623.
	Units	453	646	847	717	753	802	84
Residential, multiple	$million	51.4	85.7	553.9	242.2	295.4	356.4	553.
	Units	6	5	14	6	8	10	1
Social Housing	$million	2,654.1	4,643.7	6,886.2	5,224.9	5,779.9	6,602.0	6,886.
	Units	304	435	532	469	516	538	53
Mixed	$million	184.2	255.8	244.6	261.9	247.9	257.0	244.
	Units	8	16	22	17	18	22	2
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	3,187.4	5,959.4	6,579.8	1,912.0	1,113.6	1,983.0	1,571.
	Units	282	388	428	118	103	109	9
Residential, single	$million	1,800.9	3,744.3	3,410.8	1,110.8	464.4	950.1	885.
	Units	148	243	273	80	51	69	7
Residential, multiple	$million	20.1	56.1	472.2	157.8	53.8	61.9	198.
	Units	2	1	10	2	2	2	
Social Housing	$million	1,197.3	2,052.8	2,652.5	631.8	588.7	945.1	486.
	Units	125	136	139	35	49	34	2
Mixed	$million	169.1	106.3	44.2	11.6	6.6	26.1	0.
	Units	7	8	6	1	1	4	
YIELDS (5-YEAR MATURITY, %)								
MBS Open		9.84	8.37	7.21	7.91	7.61	6.94	6.4
MBS Closed		9.67	8.16	7.04	7.69	7.46	6.79	6.2
MBS MMUF		9.76	8.28	7.15	7.78	7.54	6.92	6.3
MBS Hybrid		9.85	8.37	7.22	7.91	7.61	6.96	6.4
Mortgage rates		11.13	9.51	8.78	9.32	8.95	8.75	8.0
GOCs		9.07	7.56	6.51	7.00	6.85	6.32	5.8
SPREADS OVER GOC (5-YEAR MATURITY, %)								
Open		0.78	0.82	0.70	0.90	0.75	0.62	0.5
Closed		0.60	0.61	0.53	0.69	0.60	0.47	0.3
MMUF		0.69	0.72	0.63	0.77	0.69	0.60	0.4
Hybrid		0.78	0.82	0.71	0.90	0.75	0.64	0.5
Mortgage Rates		2.06	1.96	2.26	2.31	2.10	2.43	2.2

Not seasonally adjusted data.

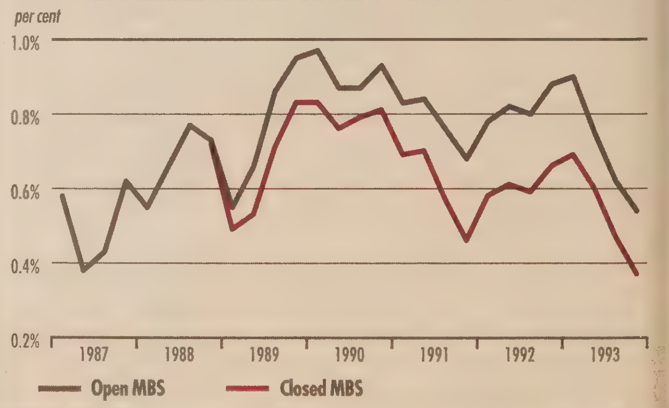
Source: CMHC, Burns Fry Limited *CMHC – MAC 1994*

Selected Interest Rates (5-year maturity)



Source: Burns Fry Limited *CMHC – MAC 1994*

Spreads over GOCs (5-year maturity)



Source: Burns Fry Limited *CMHC – MAC 1994*

C M H C M O R T G A G E M A R K E T

TRENDS

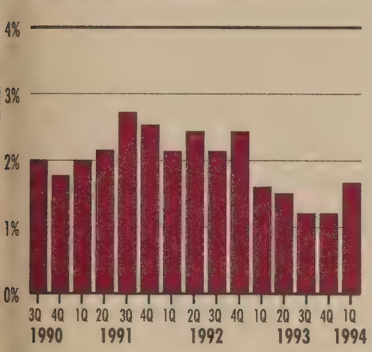
MARKET ANALYSIS CENTRE SECOND QUARTER 1994

MORTGAGE LENDING

MORTGAGE CREDIT EXPANDING FASTER IN 1994

Mortgage credit jumped by 1.7 per cent in the first quarter of 1994, growing much faster than it did in the second half of 1993.

Residential Mortgage Credit Growth* (from previous quarter)



nominal e: estimate
Source: Bank of Canada, CMHC CMHC–MAC 1994

Market Share of Residential Mortgage Credit

	1Q93	4Q93	1Q94e
anks	46.8%	50.6%	50.5%
rust	22.9%	18.0%	17.5%
aisses & Co-op	13.6%	13.8%	13.8%
fe	7.2%	7.0%	7.0%
ension Funds	3.0%	3.0%	2.9%
n. & Loan	6.5%	7.7%	8.3%

estimate
Source: Bank of Canada CMHC–MAC 1994

During the first quarter of 1994, mortgage credit outstanding reached $313.6 billion, up from a revised value of $308.5 billion in the closing quarter of 1993. The advance reflected the combined impact of more buyers in the existing home market and higher average prices. Growth would have been even higher, but there was a slowdown in new construction and continued caution by lenders and homeowners.

The resale market was particularly strong in March after the slow start caused by extremely cold January and February weather. Existing home sales through the Multiple Listing Service* rose to 329,500 units in first quarter 1994, at an annual rate and adjusted for normal seasonal patterns. This compares to 317,100 units in the preceding quarter.

Several factors account for the March sales rally. First, there was some release of the pent up demand during the January/February cold snap. Second, the rise in mortgage rates in March may have spurred some buyers to enter the market before rates rose even more. Finally, some people may have rushed to purchase, anticipating an end to the government incentive program, the Home Buyers' Plan. (The Plan was made permanent in February's budget, however.)

The average price for existing homes climbed 2.2 per cent to $157,400 in January-March, the largest increase in the last 18 months. But this jump does not reflect a general rise in prices. Instead, it is the result of a rebound in some of the more expensive Ontario markets.

Arctic temperatures also slowed down the new construction market early in the year, but there was no significant rebound in March, as occurred for resales. As a result, housing starts fell 6.5 per cent to 151,900 units during the first quarter of 1994, from 162,400 units in the closing quarter of 1993.

Although mortgage credit expansion has picked up, the pace is still relatively slow considering the current pattern of housing market activity. Growth remains modest because homeowners are cautious about mortgage debt: they limit their initial borrowing on buying a home, add reluctantly to existing mortgages and speed up repayments. Lenders may also be holding back. For example, financing has been tighter for high rise condominium projects in British Columbia.

This past quarter, there were no major acquisitions of one financial institution by another and therefore no major shifts in mortgage portfolios from one to another. As a result, the share of mortgage credit held by the various types of lenders has not changed much from the previous quarter, as the table to the left shows.

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

NEW SURVEY PRESENTS IMMIGRANT HOUSING CHOICE TRENDS

BY ROGER LEWIS*

In recent years, immigration to Canada has increased substantially, so that today one out of every six people in the country is an immigrant. Recently too, there has been a pronounced shift in immigration patterns, resulting in far fewer new arrivals from Europe and many more from other regions, particularly Asia.

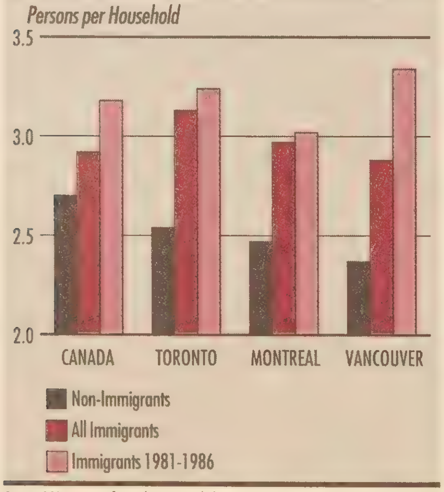
This article presents some findings from a new CMHC study of immigrant housing choices. The research is based on 1986 census data for Canada as a whole as well as for the country's three largest metropolitan areas—Toronto, Montreal and Vancouver.[1]

Immigrant Household Size and Household Formation

The findings show that, in 1986, households headed by immigrants were, on average, larger than those of non-immigrants—2.9 persons versus 2.7 persons. Those of recent immigrants were larger still, with 3.2 persons. And in the three major cities, the differences between immigrants and non-immigrants were even more pronounced. For example, in Vancouver, households headed by recent immigrants were larger by one full person than those of the rest of the population.

The larger households of immigrants meant that they had lower headship rates, that is, proportionately fewer heads of households, for most age groups. Immigrants, especially recent arrivals, were less likely to live alone and more likely to live as families than established Canadians. Moreover, a higher proportion of immigrant family households were couples with children and multi-family units.

AVERAGE HOUSEHOLD SIZE
By Immigration Status of Head, 1986



Source: 1986 Census of Canada custom tabulations CMHC – MAC 1994

Tenure and Dwelling Choices of Immigrants

In 1986, two thirds of immigrant households in Canada owned their homes, compared to only 61 percent for non-immigrants. For recent immigrants, however, the ownership rate was much lower—31 percent. The high rate of ownership for the immigrant population as a whole reflected a large proportion of households with heads aged 45 to 64. Differences between immigrant and non-immigrant ownership rates were particularly great in Toronto, Montreal and Vancouver.

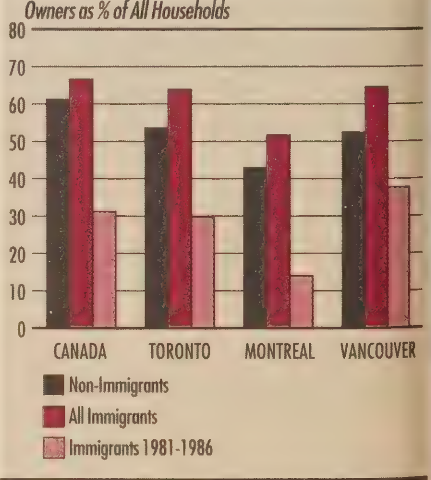
In 1986, two thirds of immigrant households in Canada owned their homes, compared to only 61 percent for non-immigrants.

The dwelling choices of immigrant households also differed from those of established Canadians. Just over three quarters of immigrant owner households lived in single-detached homes, compared to 84 percent for non-immigrants. Recent immigrants were even less likely to live in singles. Only 67 percent of this group of owner households lived in singles units.

Among households that rented, immigrants were more likely than non-immigrants to live in apartments. This was the dwelling choice of 78 percent of recent immigrant and 75 percent of general immigrant renters. By contrast, only 64 percent of established Canadian households that rented lived in apartments. This national pattern was evident in both Toronto and Montreal. In Vancouver, however, a higher proportion of tenant households lived in other types of rentals such as row, semi-detached and duplex units.

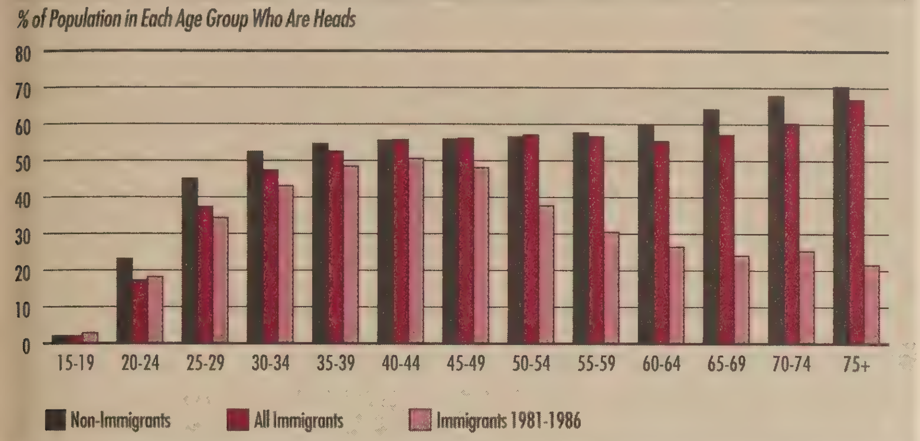
Generally, the differences between immigrant and non-immigrant housing choices in 1986 were sharpest among recent newcomers. This implies that immigrants' choices evolve and that the differences between the groups narrow over time. The trend is probably because of income growth. In 1985, recent immigrant households earned an average of only $25,900 a year compared with $33,800 for other households. But the average income for the general immigrant group was actually higher — $36,000.

OWNERSHIP RATES
By Immigration Status of Head, 1986



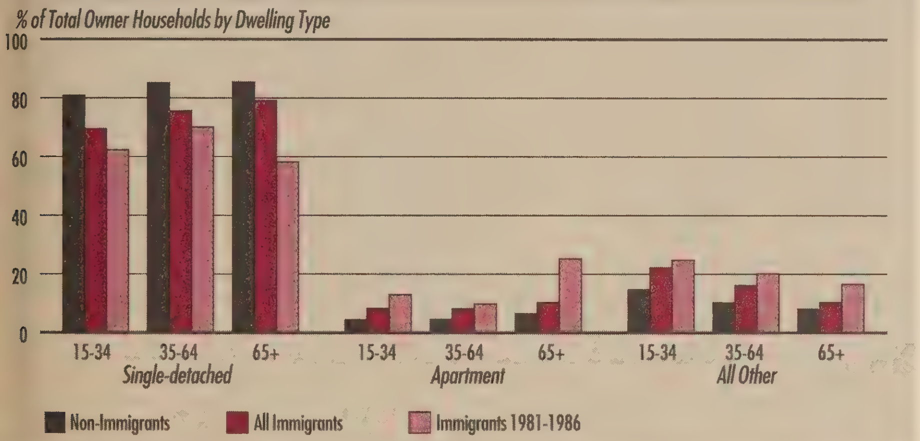
Source: 1986 Census of Canada custom tabulations CMHC – MAC 199

TOTAL HOUSEHOLD HEADSHIP RATES
By Immigration Status and Age Group, Canada, 1986



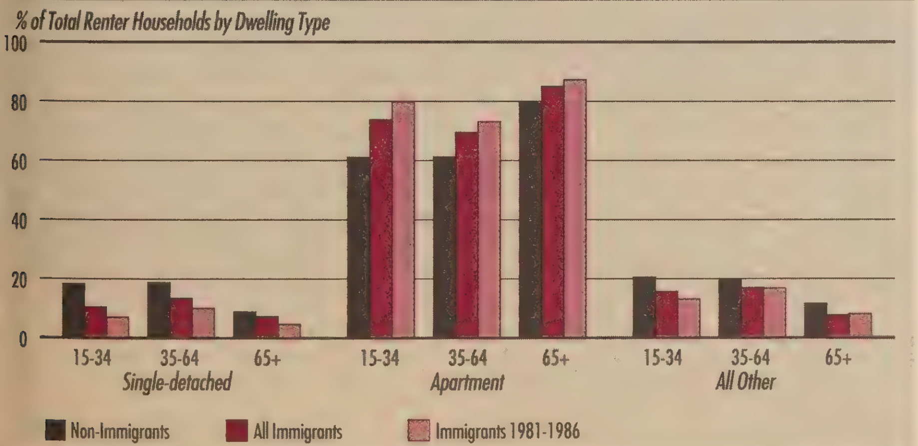
ource: 1986 Census of Canada custom tabulations CMHC – MAC 1994

TOTAL OWNERSHIP DWELLING TYPE PROPENSITIES
By Immigration Status and Age of Head, Canada, 1986



ource: 1986 Census of Canada custom tabulations CMHC – MAC 1994

TOTAL RENTER DWELLING TYPE PROPENSITIES
By Immigration Status and Age of Head, Canada, 1986



ource: 1986 Census of Canada custom tabulations CMHC – MAC 1994

Other interesting findings

• According to data on period of immigration, the headship rates of immigrants approximate those of non-immigrants after five to 10 years in Canada. Immigrant ownership rates, however, seem to take a bit longer to match those of non-immigrants — 10 to 15 years.

• Among immigrant homeowners, the longer they had been in Canada, the more likely they were to live in single-detached houses.

• In 1986, 51.6 percent of non-immigrant households had their houses paid off, compared with only 33 percent for people who had arrived between 1976 and 1980. The percentage drops to 5.4 percent for those who arrived in 1981, or afterwards. This information has been taken from the Canadian Family Expenditure Survey for 1986 and 1991.

• The same survey shows that, in 1986, mortgage payments in percentage of households' income was, on average, higher for immigrants (20.3 percent) than for non-immigrants (15.9 percent). In 1991, the figures were 22.2 percent for immigrants compared with 16.5 percent for non-immigrants.

Most of the findings in this article were based on an analysis of a single year of census data. Therefore, we must be cautious in drawing conclusions about the evolution of immigrant tendencies. Recent and future immigrants may exhibit different behaviour trends.

* Roger Lewis is a researcher with the CMHC Research Division, Housing Requirements

[1] Canada Mortgage and Housing Corporation, *Immigrant Housing Choices, 1986* (Ottawa: CMHC, 1994). A copy of this report can be obtained by calling the Canadian Housing Information Centre at (613) 748-2367.

INDICATORS OF MORTGAGE LENDING ACTIVITY

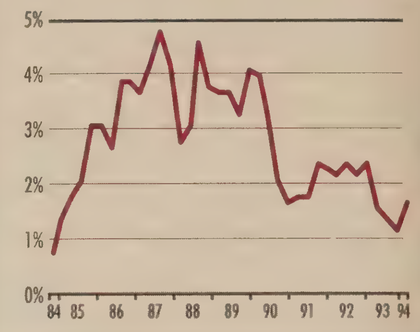
Mortgage Credit Outstanding[1] (in millions of dollars)

	1992	1993	1994[2]	93Q2	93Q3	93Q4	94Q1 e
TOTAL	282,380	302,980	313,612	301,536	304,860	308,489	313,612
% change	9.4	7.3	5.6	1.5	1.1	1.2	1.7
Banks	123,583	146,519	158,274	142,599	148,275	156,092	158,274
Trust Co.	74,507	63,284	54,917	67,123	62,512	55,414	54,917
Caisses & CO-OP	38,121	41,403	43,301	41,089	41,804	42,460	43,301
Life Ins. Co.	19,999	21,376	21,932	21,215	21,357	21,684	21,932
Pension Funds	8,992	9,080	9,196	9,055	9,079	9,135	9,196
Fin. & Loan	17,178	21,318	25,992	20,456	21,834	22,705	25,992

(1) Seasonally Adjusted Data (e) Estimate

Source: Bank of Canada, CMHC *CMHC – MAC 1994*

Residential Mortgage Credit Growth
(in per cent)



Source: Bank of Canada; CMHC *CMHC – MAC 1994*

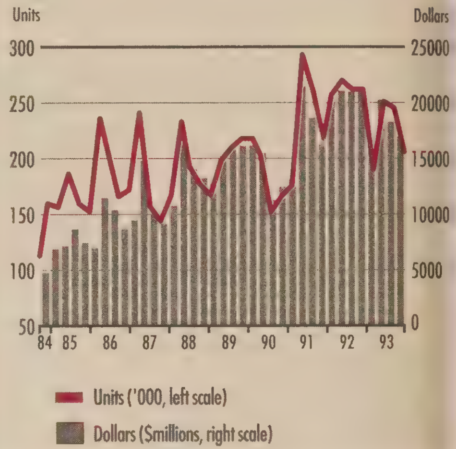
NHA and Conventional Loans Approved[1]

		1991	1992	1993	93Q1	93Q2	93Q3	93Q4
TOTAL	$ millions	70,059	82,935	71,665	16,252	20,203	18,283	16,927
	Units	962,356	1,047,914	893,016	197,720	254,409	235,083	205,804
NHA	$ millions	15,370	23,021	25,220	4,982	7,252	6,428	6,558
	Units	183,314	254,898	287,618	57,225	81,734	71,489	77,170
Conventional	$ millions	54,689	59,914	46,445	11,270	12,951	11,855	10,369
	Units	779,042	793,016	605,398	140,495	172,675	163,594	128,634
By Type of Lender								
Banks	$ millions	38,213	50,447	42,622	10,092	12,150	10,574	9,806
	Units	473,868	589,404	498,332	114,065	146,550	122,642	115,075
Trust Co.	$ millions	15,692	14,555	14,553	3,231	4,183	3,746	3,393
	Units	237,216	196,991	188,135	43,239	56,534	48,842	39,520
Life Ins. Co.	$ millions	5,044	5,310	4,624	893	1,273	1,151	1,307
	Units	94,333	90,751	78,175	15,685	20,041	19,785	22,664
Others	$ millions	11,110	12,623	9,866	2,036	2,597	2,812	2,421
	Units	156,939	170,768	128,374	24,731	31,284	43,814	28,545

(1) Not Seasonally Adjusted at Annual Rate

Source: CMHC *CMHC – MAC 1994*

NHA and Conventional Approvals



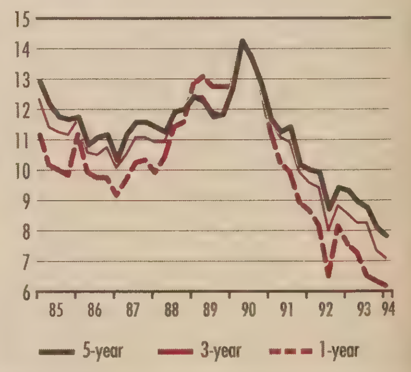
Source: CMHC *CMHC – MAC 1994*

Mortgage Rates (Average of period)

	1992	1993	1994	93Q1	93Q2	93Q3	93Q4	94Q1
1-Year Mortgage Rate	7.87	6.91	6.17	7.55	7.25	6.50	6.33	6.17
3-Year Mortgage Rate	8.95	8.10	7.08	8.55	8.25	8.25	7.35	7.08
5-Year Mortgage Rate	9.51	8.78	7.82	9.32	8.95	8.75	8.08	7.82

Sources: Bank of Canada, CMHC *CMHC – MAC 1994*

Mortgage Rates *(per cent)*



Source: Bank of Canada *CMHC – MAC 1994*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Marc Pellerin, Capital Markets Economist, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 495-2199.

Mortgage Market Trends is a quarterly publication. Enquiries regarding subscription should be directed to:
Canada Communication Group-Publishing,
Ottawa, Canada K1A 0S9.
Tel.: (819) 956-4802; Fax: (819) 994-1498.

Annual subscription (4 issues) $44. + GST – Catalogue No. NH12-8E.
Single issue $11. + GST – Catalogue No. NH12-8-1994-2E.

Cette publication est aussi disponible en français sous le titre SCHL – Tendances du marché hypothécaire – LNH 6109 2T/94

ISSN 1188-4215
Printed in Canada

CMHC offers a wide range of housing-related information. For details, contact your local CMHC office.

CMHC subscribes to Canada's Green Plan. Quantities of our publications are limited to market demand; updates are produced only when required; and recycled or environmentally friendly stock and environmentally safe inks are used wherever possible.

NHA Mortgage-Backed Securities First Quarter Issues
January 1994 to March 1994

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: January 1994						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96409529	LONDON LIFE INSURANCE CO.	10,002,092.82	6.750	January 01, 1999	8.10	23.92
96409768	BANQUE NATIONALE DU CANADA	22,703,690.70	6.000	November 01, 1998	8.52	23.25
96409867	PEOPLES TRUST COMPANY	2,327,495.47	6.125	January 01, 1999	8.13	23.50
96409875	HOUSEHOLD TRUST COMPANY	6,922,726.82	6.125	January 01, 1999	7.50	24.75
96409883	WESTMINSTER SAVINGS C.U.	3,480,564.21	6.125	January 01, 1999	7.78	22.50
96409909	FIRSTLINE TRUST COMPANY	14,429,563.32	6.875	March 01, 2001	8.30	23.50
96409917	FIRSTLINE TRUST COMPANY	10,617,722.61	6.875	February 01, 2001	8.48	18.75
96409941	FIRSTLINE TRUST COMPANY	11,838,987.33	7.000	March 01, 2004	8.79	24.25
96409958	FIRSTLINE TRUST COMPANY	8,615,483.28	7.000	March 01, 2004	8.83	19.08
96409966	FIRSTLINE TRUST COMPANY	3,986,047.62	7.000	March 01, 2004	8.84	16.00
96409974	FIRSTLINE TRUST COMPANY	2,478,919.67	7.000	March 01, 2004	8.87	12.67
96409990	HOUSEHOLD TRUST COMPANY	11,925,636.89	5.875	January 01, 1999	7.51	24.75
96410006	SECURITY HOME MORTGAGE INV.COR	3,214,195.25	5.375	January 01, 1997	7.18	24.92
96410014	SECURITY HOME MORTGAGE INV.COR	5,250,115.12	6.125	January 01, 1999	7.73	25.00
96410022	FIRSTLINE TRUST COMPANY	2,387,401.90	7.250	January 01, 2019	9.24	19.00
96410030	FIRSTLINE TRUST COMPANY	2,177,172.39	7.250	February 01, 2019	9.34	24.83
96410105	HOUSEHOLD TRUST COMPANY	2,818,014.72	4.875	January 01, 1997	6.89	24.25
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500236	M.R.S TRUST COMPANY	11,995,837.64	6.375	January 01, 1999	7.73	23.25
SOCIAL HOUSING POOLS						
99005852	FIDUCIE DESJARDINS INC.	8,121,439.00	6.000	January 01, 1999	6.61	35.00
99005860	FIDUCIE DESJARDINS INC.	2,701,445.00	6.000	January 01, 1999	6.61	25.00
99005886	CIBC MORTGAGE CORPORATION	11,150,500.64	4.625	January 01, 1997	5.85	33.00
99005894	BANK OF NOVA SCOTIA	7,753,039.36	4.750	January 01, 1997	5.67	30.50
99005902	TORONTO-DOMINION BANK	37,277,991.00	6.125	January 01, 1999	6.71	35.00
99005910	TORONTO-DOMINION BANK	6,635,526.88	6.125	January 01, 1999	6.71	2.92
99005928	CIBC MORTGAGE CORPORATION	4,245,218.02	4.750	January 01, 1997	5.93	35.00
99005936	CIBC MORTGAGE CORPORATION	11,283,050.18	6.000	January 01, 1999	6.77	35.00
99005969	BANK OF NOVA SCOTIA	8,218,481.82	6.000	January 01, 1999	6.77	35.00
MONTH OF ISSUE: February 1994						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96409735	LONDON LIFE INSURANCE CO.	15,901,159.71	6.375	February 01, 1999	7.77	23.00
96409891	HOUSEHOLD TRUST COMPANY	4,999,987.24	6.375	February 01, 1999	7.33	24.92
96409925	BANQUE NATIONALE DU CANADA	23,249,183.12	6.125	December 01, 1998	8.02	23.33
96409933	BANQUE NATIONALE DU CANADA	7,797,589.33	6.125	December 01, 1998	8.19	15.50
96409982	VANCOUVER CITY SAVINGS C.U.	15,313,721.80	5.750	January 01, 1999	8.18	24.25
96410048	PACIFIC COAST SAVINGS C.U.	2,498,237.92	5.125	January 01, 1997	8.10	23.17
96410055	PACIFIC COAST SAVINGS C.U.	2,997,516.56	5.875	January 01, 1999	8.64	18.50
96410063	PACIFIC COAST SAVINGS C.U.	5,999,097.36	5.875	February 01, 1999	8.05	22.75
96410089	METROPOLITAN TRUST COMPANY	2,833,626.58	6.000	February 01, 1999	7.62	22.92
96410097	M.R.S TRUST COMPANY	4,035,299.28	5.750	February 01, 1999	7.42	22.67
96410113	SECURITY HOME MORTGAGE INV.COR	5,169,818.46	5.750	February 01, 1999	7.43	24.92
96410139	FIRSTLINE TRUST COMPANY	2,097,987.53	4.875	March 01, 1996	6.80	16.33
96410147	FIRSTLINE TRUST COMPANY	2,855,057.76	4.875	April 01, 1996	6.46	21.92
96410154	FIRSTLINE TRUST COMPANY	2,081,950.16	5.375	March 01, 1997	7.21	16.92
96410162	FIRSTLINE TRUST COMPANY	9,512,822.42	5.375	April 01, 1997	6.70	22.92
96410170	FIRSTLINE TRUST COMPANY	65,758,790.73	6.250	May 01, 1999	7.41	22.67
96410188	FIRSTLINE TRUST COMPANY	22,239,645.75	6.250	July 01, 1999	7.61	22.67
96410196	FIRSTLINE TRUST COMPANY	5,925,635.26	6.250	March 01, 1999	8.01	22.58
96410204	FIRSTLINE TRUST COMPANY	4,794,447.60	6.250	June 01, 1999	8.01	22.33
96410212	FIRSTLINE TRUST COMPANY	7,988,491.78	6.250	April 01, 1999	7.53	17.17
96410220	FIRSTLINE TRUST COMPANY	3,308,895.36	6.250	July 01, 1999	7.22	17.08
96410238	FIRSTLINE TRUST COMPANY	2,168,501.58	6.000	April 01, 1999	7.36	14.75
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600176	PEOPLES TRUST COMPANY	28,282,228.40	5.875	February 01, 1999	7.12	24.33
96600184	FIRSTLINE TRUST COMPANY	10,682,198.11	6.000	February 01, 1999	7.79	25.33

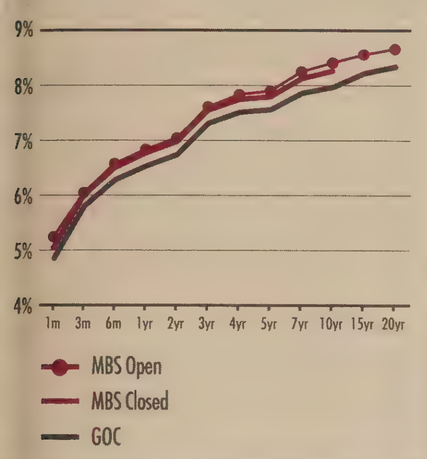
POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
SOCIAL HOUSING POOLS						
99005951	FIDUCIE DESJARDINS INC.	7,581,631.00	5.625	February 01, 1999	6.35	32.50
99005977	TORONTO-DOMINION BANK	5,573,251.31	5.875	February 01, 1999	6.45	35.00
99005985	TORONTO-DOMINION BANK	12,262,530.00	5.875	February 01, 1999	6.42	35.00
99005993	CIBC MORTGAGE CORPORATION	12,549,484.73	4.500	February 01, 1997	5.73	35.00
99006009	CIBC MORTGAGE CORPORATION	32,955,475.00	5.625	February 01, 1999	6.46	35.00
99006017	BANK OF NOVA SCOTIA	12,562,532.00	4.000	February 01, 1997	5.69	35.00
MONTH OF ISSUE: March 1994						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96410071	PACIFIC COAST SAVINGS C.U.	7,999,742.10	5.125	March 01, 1997	6.78	23.00
96410253	M.R.S TRUST COMPANY	4,997,091.37	6.125	March 01, 1999	7.03	22.33
96410261	BANQUE NATIONALE DU CANADA	20,659,155.44	6.750	January 01, 1999	7.66	23.50
96410287	BANQUE NATIONALE DU CANADA	3,064,258.23	6.750	January 01, 1999	7.70	15.58
96410295	SECURITY HOME MORTGAGE INV.COR	3,391,795.33	6.000	March 01, 1997	6.88	24.92
96410303	SECURITY HOME MORTGAGE INV.COR	3,955,111.69	6.500	March 01, 1999	7.19	25.00
96410329	SECURITY HOME MORTGAGE INV.COR	2,403,973.26	6.250	March 01, 1999	6.98	25.00
96410337	WESTMINSTER SAVINGS C.U.	4,562,935.95	6.750	March 01, 1999	7.47	23.00
96410345	WESTMINSTER SAVINGS C.U.	3,671,569.26	5.750	March 01, 1997	6.64	22.42
SOCIAL HOUSING POOLS						
99006025	BANK OF MONTREAL	5,406,058.31	5.375	March 01, 1999	5.94	30.00
99006033	TORONTO-DOMINION BANK	10,930,085.98	6.625	March 01, 1999	7.16	35.00
99006041	TORONTO-DOMINION BANK	11,571,936.00	6.625	March 01, 1999	7.14	35.00
99006058	CIBC MORTGAGE CORPORATION	18,674,194.00	6.375	March 01, 1999	7.16	35.00
99006066	CIBC MORTGAGE CORPORATION	18,119,148.00	5.250	March 01, 1997	6.50	35.00
99006082	BANK OF NOVA SCOTIA	15,915,924.00	5.500	March 01, 1997	6.52	35.00
99006090	FIRSTLINE TRUST COMPANY	8,644,669.71	6.500	March 01, 1999	7.17	35.00

NHA MORTGAGE-BACKED SECURITIES

PACE OF NHA MBS ISSUES SLOWS

A shortage of new five-year mortgages limited the creation of National Housing Act Mortgage-backed securities (NHA MBSs) during the first quarter of 1994. The supply of mortgages available for pooling is on the rise again, however. This, along with the growing demand for MBS derivatives, should boost new MBS issues later this year.

NHA Mortgage-Backed Securities Yield Analysis – *March 31, 1994**



* Bid Side
Source: Burns Fry Limited — CMHC – MAC 1994

NHA Mortgage-Backed Securities Yield Analysis – *Market close, May 6, 1994**

GOC description: Coupon Rate	GOC description: Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
4.75%	03/96	Open	28	7.93%
6.50%	08/96	Open	30	8.05%
7.50%	07/97	Open	31	8.30%
7.50%	07/97	Closed	19	8.18%
5.75%	03/99	Open	32	8.53%
5.75%	03/99	Closed	20	8.41%
7.25%	06/03	Open	44	9.00%

* Bid Side
Source: Telerate; average for MBS traders — CMHC – MAC 1994

The first three months of 1994 saw only 73 new NHA MBSs issued for a total value of $720.5 million. This compares with 98 issues totalling $1,571.3 million posted during the last quarter of 1993.

The decline was mainly in the single residential-unit pools, with total value of new issues dropping to $399.4 million from $885.6 million in the previous quarter.

There was also less activity in social housing pools. New first-quarter issues of these MBSs amounted to only $270.1 million compared to $486.9 million for the previous period. The downward trend in new social housing pools was due to the introduction of the CMHC Direct Lending Program in August 1993.

Two factors explain the drop in residential pool issues in spite of good mortgage lending activity recorded in March.
1) Bitter cold weather in January and February kept potential buyers at home and out of the market.
2) Falling mortgage rates in early 1994 had the same effect, as homebuyers waited on the sidelines for the rate decline to bottom out. Buyers finally entered the market only as the climb in rates began in March, when five-year rates rose to 9.5 per cent after reaching a 29-year low of 7.25 per cent in February.

Although borrowing increased in March, this was not reflected in first-quarter MBS issues since it takes at least a month for mortgages to be processed into MBS pools. Moreover, during the rate slide of early 1994, buyers were especially hesitant to lock into five-year mortgages, which are more cost effective to securitize. High issuance costs have made financial institutions reluctant to create residential singles pools with terms of less than five years.

The lower supply of new NHA MBS issues drove prices up and narrowed the yield spread between MBSs and Government of Canada Bonds (GOCs) during the first quarter of 1994. For five-year non-prepayable MBSs and GOCs, the differential dropped to an all time low of 22 basis points compared with an average of 37 basis points in the last quarter of 1993. The yield for prepayable five-year MBSs was 50 basis points higher than GOCs'in the first three months of the year. This compares with 53-point spread in the previous quarter.

The pace of new MBS issues should pick up during the second quarter of 1994 for the following reasons:
1) Rising mortgage rates have convinced homebuyers to jump into the market and lock in for the long-term. This will increase the number of mortgages eligible for pooling.
2) The demand for MBS derivatives is high. For instance, issues of Collateralized Mortgage Obligations (CMOs) totalled $999.5 million in 1993, the first year they came onto the Canadian market. In the first quarter of 1994 alone, new CMOs totalled $740.9 million. Issuers use NHA MBSs as collateral in CMOs because it is the cheapest way to provide credit enhancement.
3) Amendments to the NHA MBS program announced by CMHC at the MBS Issuers Conference on May 3, 1994 will make MBSs more attractive by reducing issuance costs and increasing the types of loans eligible for pooling. (See the details on page 7).

WHEN IS IT PROFITABLE TO REFINANCE YOUR MORTGAGE LOAN?

BY MARC GODBOUT*

It is generally agreed that refinancing a mortgage loan is profitable when mortgage rates drop by at least 2.5 percentage points compared to the rate on the loan contract. However, the analysis below demonstrates that the "profitability threshold" depends on any or all of the following factors: the level of the original rate, the administrative expenses involved and the mortgage loan amortization period. By using historical data on five-year mortgage rates, this profitability threshold was observed only one out of three times in the last eleven years.

Basic Assumptions

In general, borrowers will refinance their mortgage loans when the penalties do not exceed three months of interest. In fact, borrowers see no advantage in exercising their refinancing options if the required penalties are equivalent to the current value of the interest differential between the new rate and the original rate for the remainder of the loan term. Still, borrowers may choose to refinance their loans and pay the interest rate differential because they feel that current rates are low compared to the rates that they anticipate at the time their renewals come up.

So, when are penalties limited to three months of interest? In accordance with the directives set out in CMHC mortgage documents, mortgage lenders cannot require penalties greater than three months of interest after the third anniversary for loans with terms of over three years. Furthermore, the Canadian Interest Act stipulates that all mortgage loans with terms of five years or more are also subject to maximum three-month interest penalties as of their fifth anniversaries.

Table 1 shows that five-year mortgage rates must have decreased by at least 1.27 percentage points by the third anniversary for it to be worthwhile to refinance a $100,000 NHA insured mortgage loan. Such a loan would have an original rate of 10.00% and a 25-year amortization period, and no portion of the principal would have been prepaid during the first three years. In the third year, the balance of this loan would be $96,750.91 (table 2).

To find out the rate at which it would be profitable to refinance a mortgage, we must assume that the new loan term is equivalent to the remainder of the initial term. In this case, there would be 24 months left. The total interest that would have to be paid for the remaining 24 months at the original rate would be $18,708.66. If the borrower were to refinance the loan, the amount of the interest penalty would be $2,369.87.

In order to calculate the interest rate that we must use to establish the profitability threshold at which the mortgage borrower neither gains nor loses, we must subtract the penalty amount from the amount of interest at the original rate, giving us $16,338.79. Then, all we have to do is figure out the interest rate corresponding to this amount. In this case, the rate is approximately 8.73%.

Table 1 illustrates how the results vary with interest rate levels. With a rate of 9.25% in the contract, refinancing will be profitable if the market rates were at least 1.17 percentage points lower than the 9.25% rate at the 36th period. The profitability threshold increases to 1.75 percentage points if the original rate in the contract is 13.75%.

What happens when borrowers decide to refinance their loans with another financial institution? These borrowers then

TABLE 1. EARLY REFINANCING

REQUIRED INTEREST RATE DECREASES TO ATTAIN PROFITABILITY THRESHOLDS (in %)

Amortization Period	Original Rate	Profitability Threshold Rate	Difference
Refinancing with the Original Lender			
Extended to 25 years	13.75	11.96	1.79
Unchanged	13.75	12.00	1.75
Shortened to 18 years	13.75	12.19	1.56
Extended to 25 years	11.75	10.22	1.53
Unchanged	11.75	10.26	1.49
Shortened to 18 years	11.75	10.43	1.32
Extended to 25 years	10.00	8.70	1.30
Unchanged	10.00	8.73	1.27
Shortened to 18 years	10.00	8.89	1.11
Extended to 25 years	9.25	8.04	1.21
Unchanged	9.25	8.08	1.17
Shortened to 18 years	9.25	8.23	1.02
Refinancing with a New Lender			
Extended to 25 years	13.75	11.27	2.48
Unchanged	13.75	11.31	2.44
Shortened to 18 years	13.75	11.50	2.25
Extended to 25 years	11.75	9.53	2.22
Unchanged	11.75	9.57	2.18
Shortened to 18 years	11.75	9.74	2.01
Extended to 25 years	10.00	8.00	2.00
Unchanged	10.00	8.04	1.96
Shortened to 18 years	10.00	8.19	1.81
Extended to 25 years	9.25	7.35	1.90
Unchanged	9.25	7.38	1.87
Shortened to 18 years	9.25	7.52	1.73

CMHC – MAC 19

have to disburse other expenses on top of the interest penalties. More specifically, these additional expenses are $350 for the mortgage discharge, $600 for the preparation of new mortgage documents and $350 for a new registration. However, some lenders offer to pay a portion of these costs. If we include these additional expenses, we see that the difference at which it becomes favourable to refinance a loan rises from 1.27 to 1.96 percentage points, in the case of a 10.00% rate.

Table 1 also shows that the necessary decline in rates to refinance a mortgage falls to 1.81 percentage points if the borrower decides to shorten the amortization by seven years. Likewise, the profitability threshold rises to 2.00 percentage points in the event that a borrower experiencing financial difficulty would choose to extend the amortization period by three years as of the initial date.

Interest Rate Variations and Early Mortgage Refinancing

Graph 1 presents the variations in the historical differences between five-year mortgage rates at which borrowers signed their contracts and five-year interest rates in effect during the third year. This calculation is based on the assumption that the borrowers would have been prepared to refinance their mortgages in the third year.

This exercise shows that, during the 1980's and 1990's, the refinancing of five-year mortgage loans would only have been profitable one out of three times. These results were obtained by adding 0.50% to the rates at which borrowers neither gain nor lose, such that the refinancing operation would have been truly profitable.

Limits of the Analysis

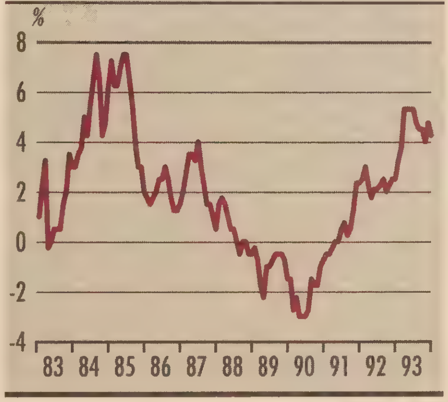
This analysis was based on mortgage loans at the beginning of their amortization periods. The drop in interest rates would naturally have to be more considerable if borrowers wished to refinance their mortgages in the final years of these loans. However, the penalty amount would be lower towards the end than at the beginning of the period.

The assumption that borrowers only consider five-year rates on the third anniversary of their loans makes for an underestimation of the number of periods during which borrowers may have been able to take advantage of sufficiently large interest rate declines to refinance their mortgages. In fact, shorter rates were lower than or equal to five-year rates most of the time. Only during the two pre-recession periods, 1980 and 1989-1990, did shorter-term rates exceed five-year rates. Finally, five-year rates were used to keep the analysis simple and general.

TABLE 2. MORTGAGE LOAN REFINANCING
(Details of the Calculations)

Mortgage	
Amount:	$100,000.00
Interest Rate:	10.00%
Term:	5 years
Amortization:	25 years
Monthly Payment:	$894.49
Balance (36 months):	$96,750.91
Refinancing with the Original Lender	
• Interest rate in the contract (A):	10.00%
• 24 months of interest at the original rate (B):	$18,708.66
• 3 months of interest penalty (C):	$2,369.87
• Interest to pay to attain the profitability threshold (B - C):	$16,338.79
• Interest rate based on the profitability threshold (D):	8.73%
• Required interest rate differential (A - D):	1.27%

SPREAD
Five-Year Mortgage Rates



CMHC – MAC 1994

* Marc Godbout is the Principal Partner in the firm L'Informateur Universel

The views expressed in this article are those of the author, and not those of Canada Mortgage and Housing Corporation.

NHA MBS Program Improved to Meet Industry Needs

CMHC has announced changes to the NHA MBS program to make it more attractive to lenders and keep it competitive in Canada's rapidly growing secondary mortgage market. The changes, announced at the MBS Issuers' Association Conference on May 3, will reduce MBS issuance costs and increase the types of loans eligible for pooling. These amendments, effective July 1, 1994, will complement the introduction on April 1 of a new type of residential pool that allows issuers to retain penalty interest payments (PIP).

Two measures to reduce issuance costs

1) New kind of pool

Responding to industry requests, CMHC has approved a new type of single homeowner residential pool, prefixed by the numbers 967, which enables issuers to retain PIP instead of passing it onto investors. However, investors must receive any such payments generated through new single homeowner 964 pools. Improved pricing techniques by the industry for MBSs have allowed CMHC to give lenders the choice to issue 964 or 967 pools, as market conditions dictate.

2) Documentation rules eased

Issuers no longer have to supply CMHC with individual assignments for all the mortgages in each pool, along with a copy of the registered mortgage. Instead, the individual assignments will be replaced by less costly, global sale and servicing agreements, as suggested by CMHC.

Measures to increase eligible loan supply

1) Wider interest-rate band

The allowable band between the highest and lowest rates among mortgages in any type of NHA MBS pool will be widened from 100 to 200 basis points. This increased interest rate band should allow more loans to be pooled, which will enhance the liquidity in the market place.

2) New amortization bands

Currently, the longest amortization cannot exceed the shortest by more than 30 per cent in all pools except social housing pools. This requirement is under review and will be finalized by July 1st.

3) Seasoned Mortgages

Issuers will be able to pool mortgages aged up to two years after the interest adjustment or renewal date. To do this, however, seasoned loans cannot be mixed with new loans. Currently, only mortgages aged six months or less are eligible for pooling under the NHA MBS program.

NHA MORTGAGE-BACKED SECURITIES

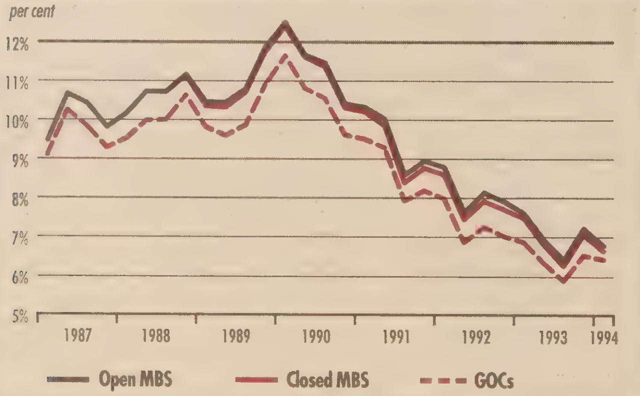
(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

		1992	1993	1994	93Q2	93Q3	93Q4	94Q1
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	11,954.8	16,308.2	16,382.8	14,090.1	15,423.3	16,308.2	16,382.8
	Units	1,102	1,415	1,439	1,295	1,372	1,415	1,439
Residential, single	$million	6,969.6	8,623.4	8,589.2	7,766.9	8,208.0	8,623.4	8,589.2
	Units	646	847	870	753	802	847	870
Residential, multiple	$million	85.7	553.9	591.3	295.4	356.4	553.9	591.3
	Units	5	14	16	8	10	14	16
Social Housing	$million	4,643.7	6,886.2	6,967.5	5,779.9	6,602.0	6,886.2	6,967.5
	Units	435	532	530	516	538	532	530
Mixed	$million	255.8	244.6	234.8	247.9	257.0	244.6	234.8
	Units	16	22	23	18	22	22	23
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	5,959.4	6,579.8	720.5	1,113.6	1,983.0	1,571.3	720.5
	Units	388	428	73	103	109	98	73
Residential, single	$million	3,744.3	3,410.8	399.4	464.4	950.1	885.6	399.4
	Units	243	273	48	51	69	73	48
Residential, multiple	$million	56.1	472.2	39.0	53.8	61.9	198.8	39.0
	Units	1	10	2	2	2	4	2
Social Housing	$million	2,052.8	2,652.5	270.1	588.7	945.1	486.9	270.1
	Units	136	139	22	49	34	21	22
Mixed	$million	106.3	44.2	12.0	6.6	26.1	0.0	12.0
	Units	8	6	1	1	4	0	1
YIELDS (5-YEAR MATURITY, %)								
MBS Open		8.37	7.21	6.78	7.61	6.94	6.41	6.78
MBS Closed		8.16	7.04	6.63	7.46	6.79	6.24	6.63
MBS MMUF		8.28	7.15	6.75	7.54	6.92	6.34	6.75
MBS Hybrid		8.37	7.22	6.78	7.61	6.96	6.41	6.78
Mortgage rates		9.51	8.78	7.82	8.95	8.75	8.08	7.82
GOCs		7.56	6.51	6.41	6.85	6.32	5.86	6.41
SPREADS OVER GOC (5-YEAR MATURITY, %)								
Open		0.82	0.70	0.38	0.75	0.62	0.54	0.38
Closed		0.61	0.53	0.22	0.60	0.47	0.37	0.22
MMUF		0.72	0.63	0.34	0.69	0.60	0.48	0.34
Hybrid		0.82	0.71	0.38	0.75	0.64	0.54	0.38
Mortgage Rates		1.96	2.26	1.41	2.10	2.43	2.22	1.41

Not seasonally adjusted data.

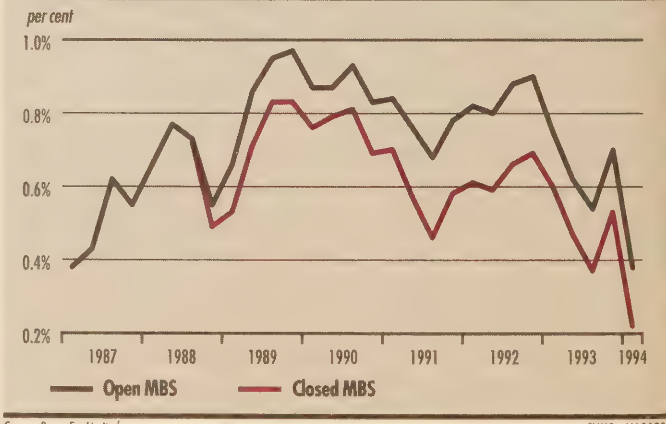
Source: CMHC, Burns Fry Limited CMHC – MAC 1994

Selected Interest Rates (5-year maturity)



Source: Burns Fry Limited CMHC – MAC 1994

Spreads over GOCs (5-year maturity)



Source: Burns Fry Limited CMHC – MAC 1994

CMHC MORTGAGE MARKET

TRENDS

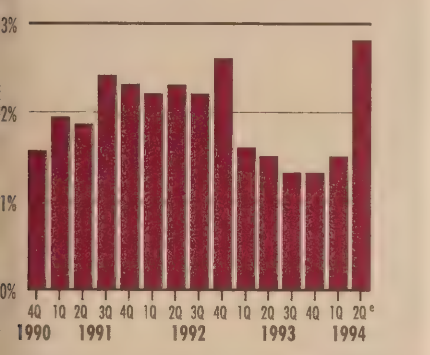
MARKET ANALYSIS CENTRE | THIRD QUARTER 1994

MORTGAGE LENDING

MORTGAGE CREDIT EXPANSION LARGEST IN FOUR YEARS

Mortgage credit jumps 2.8 per cent as rising single-family home construction boosts new loans.

esidential Mortgage Credit Growth*
rom previous quarter)



ominal e: estimate
rce: Bank of Canada, CMHC CMHC–MAC 1994

arket Share of Residential Mortgage Credit

	2Q93	1Q94	2Q94e
nks	47.3%	50.6%	52.5%
ust	22.3%	17.5%	15.6%
isses & Co-op	13.6%	13.8%	13.7%
e	7.0%	6.9%	6.8%
nsion Funds	3.0%	2.9%	2.8%
n. & Loan	6.8%	8.3%	8.6%

stimate
rce: Bank of Canada CMHC–MAC 1994

During the second quarter of 1994, mortgage credit outstanding reached $322.8 billion, up 2.8 per cent from a revised level of $314.1 billion for the first three months of the year. This was the fastest expansion since the second quarter of 1990, when mortgage credit rose by 3.3 per cent.

The growth resulted from improving consumer confidence along with rapid job creation. These factors boosted housing demand and mortgage activity despite rising interest rates. In June, lenders hiked the one-year rate by 100 basis points to 8.95 per cent and the five-year rate by 125 basis points to 10.75 per cent.

Both the new and the existing home market contributed to the jump in mortgage credit. New home starts reached their best level in two years, climbing 9.7 per cent to an annual rate of 166,700 units (adjusted for normal seasonal patterns). More significant for mortgage lending, the rise in starts was mostly in the higher-value, single-detached segment of the market. Multiple-unit starts actually fell, but not enough to have a significant impact on overall credit growth.

Sales of existing homes through the Multiple Listing Service (MLS)[1] were off slightly, but still remained at a high level of around 320,000 units. The most improved markets are those of southern Ontario, especially Toronto, where prices exceed the national average. However, rising mortgage rates were beginning to hurt homes sales toward the end of the quarter.

The strong momentum of mortgage credit from January to June should push up the total increase for the year by 7 to 7.5 per cent. This is about one per cent less than expected earlier. The revised performance reflects some easing off expected later in the year as higher mortgage rates make a dent in resale and new construction markets and in lending activity.

The acquisition of Montreal Trust by the Bank of Nova Scotia helped change the distribution of mortgage credit by type of institution. Based on CMHC's estimates, chartered banks held 52.5 per cent of mortgage credit, up from 50.6 per cent for the previous quarter. The chartered banks' gain was trust companies' loss, as the trusts saw their share of credit fall by 1.9 per cent. The distribution held fairly steady among the other types of institutions, as the table to the left shows.

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

SURVEY SHOWS HOMEOWNERSHIP INCENTIVE PLAN ON TRACK

by Christina Haddad, Senior Marketing Research Specialist, and Marc Smith, Marketing Analyst, CMHC

CMHC's First Home Loan Insurance (FHLI) program has given many Canadians the boost they needed to enter the housing market during tight economic times. This was one of the key findings of an annual survey of clients who used the homeownership incentive program during 1993. The survey found that 72 per cent of FHLI clients who bought homes that year would not have done so without the backing of the program.

Launched in 1992, the FHLI allows first-time buyers to purchase a home with a downpayment of only 5 per cent instead of the usual 10 per cent required by lenders. It is targeted at people who can afford monthly mortgage payments but have not had a chance to save a large lump sum.

Each year since the program began, CMHC has created a profile of the typical FHLI client to monitor trends in the mortgage market. The 1994 survey was completed in April and profiled home-buyers who had purchased their homes between the months of May and December 1993.

Client profile

Compared with the rest of the Canadian population, FHLI clients have a higher than average socio-demographic status. This means they have relatively good prospects and earning potential. But as a group they are also quite young and therefore still far from their peak earning years.

FHLI clients are, on average, 33 years old, with 82 per cent of their households headed by purchasers under 40 (see Fig. 1). Given how young they are, it is not surprising that many of the group are in the early stages of the family life-cycle. Forty-six per cent of these households have no children, 27 per cent have only one child and the remaining 27 per cent have two or more children living with them in the home. More than a third (35 per cent) of all FHLI clients are employed as professionals, business people or supervisors and managers, while over 40 per cent have traditional blue-collar occupations.

The relative youth of the clients is reflected in their current incomes. The average 1993 total household income for the group was $52,246, with 57 per cent of all households making less than $50,000 (see Table 1). By comparison, regular homebuyers – i.e., those who purchased with at least a 10 per cent downpayment – earned an average of $57,405 per household.

TABLE 1. TOTAL HOUSEHOLD INCOMES OF FHLI CLIENTS

	1992	1993	1994	Census 91
Under $ 30,000	6%	11%	13%	37%
$ 30,000 – $ 39,999	21%	22%	24%	14%
$ 40,000 – $ 49,999	24%	28%	20%	12%
$ 50,000 – $ 59,999	21%	22%	18%	10%
$ 60,000 – $ 69,999	16%	7%	11%	8%
$ 70,000 – $ 79,999	8%	5%	6%	6%
$ 80,000 – $ 89,999	3%	3%	3%	4%
$ 90,000 or more	1%	2%	5%	9%

A large proportion (75 per cent) of FHLI clients are married or live in a common-law relationship, while only 20 per cent are single (never married) and 5 per cent are either widowed, divorced or separated. Of clients who are married or living with someone, 80 per cent have spouses who work outside the home. These facts support the conclusion that many program participants rely on two incomes to meet mortgage payments and other home related expenses.

How and what they buy

FHLI clients tend to be first-time buyers moving from rental accommodation into homeownership. In 1993, a full 85 per cent of the group bought homes for the first time, while only 40 per cent of regular buyers—those with a 10 per cent downpayment—were in the first-purchase category (see Table 2). Eighty-nine per cent of the FHLI clients are former tenants who had rented homes for an average of 8.5 years before making a purchase. More than a quarter of them (28 per cent) rented for more than 10 years (see Fig. 2).

Most FHLI clients (83 per cent) bought existing homes, while new construction was the choice of only 17 per cent of the group. The preferred housing type was the single-detached home, chosen by 65 per cent of new home-owners participating in the FHLI program.

FHLI clients take more time to buy than clients under the regular 10 per cent donwnpayment program. Thirty-eight per cent spent more than four months searching for their new home (see Fig. 3) in comparison with 27 per cent of homebuyers under the regular program.

The most important personal factors that prompted FHLI clients to purchase a home were: 1) the desire to be a home-owner rather than a tenant, 2) the location of the new home and 3) the investment

TABLE 2. FHLI CLIENTS WHO PREVIOUSLY OWNED A HOME

	NHA – 10%			FHLI – 5%		
	1992	1993	1994	1992	1993	1994
No – 1st home	49%	42%	40%	90%	83%	85%
Yes – 2nd home	31%	34%	35%	8%	11%	10%
Yes – 3rd home	12%	13%	12%	1%	3%	4%
Yes – 4th home or over	9%	11%	13%	–	3%	1%

opportunity. Survey respondents also mentioned a host of pragmatic reasons such as the need for more space, a changing employment situation or family size and structure. The most important economic factors supporting the home purchase decision were: 1) the availability of the FHLI program, 2) the attractive mortgage rates, 3) the price of homes and, 4) the household's total income.

How they finance their homes

The FHLI's 5-per-cent minimum downpayment was clearly a strong purchasing incentive for many clients and prompted many to enter the housing market faster than they would have done without the program.

Of those FHLI clients who bought houses in 1993, a full 72 per cent said they would not have done so if they'd had to make a downpayment of 10 per cent. When asked how long it would take them to buy a home putting 10 per cent down, 7 per cent of FHLI clients indicated "never," while 22 per cent indicated more than two years. When the hypothetical downpayment was 25 per cent, 40 per cent of respondents said they would never make the purchase.

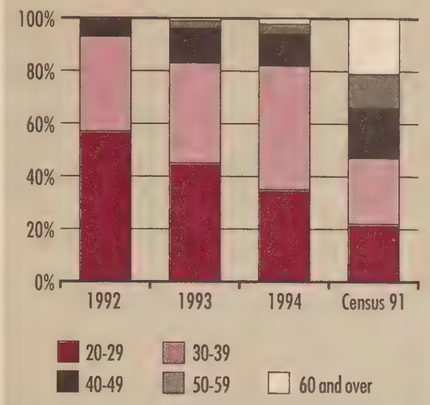
Indeed, FHLI clients took advantage of the low downpayment requirement. When purchasing their new homes, 75 per cent of clients supplied only the 5 per cent minimum. However, these clients are not considered an added risk to either CMHC or their lending institutions since their average Gross Debt Service (GDS) and Total Debt Service (TDS) are 23 per cent and 32 per cent respectively. Both these percentages have remained constant throughout 1992 and 1993.

Most FHLI clients (81 per cent) mentioned personal savings, including RRSPs, as their most important source of a downpayment, while only 52 per cent of regular purchasers said the same. In 1993, one of every four first-time buyers took advantage of the RRSP Funds Withdrawal Program to make up the downpayment for their first home, withdrawing an average of $4,355 from their RRSP accounts. The only other key downpayment source mentioned by FHLI clients was gifts from family (see Table 3).

When asked how they first found out about the FHLI program, 35 per cent of clients cited the media. Another 27 per cent said they found out through lenders, while 13 per cent mentioned real estate agents. These results show that financial institutions and other stakeholders have been reliable sources of information on CMHC products and services.

The CMHC survey was conducted during the last two weeks of April 1994 with a sample of 900 clients (450 FHLI clients and 450 regular homeowner clients) who had purchased their homes between June 1 and December 31, 1993. The results of the survey are accurate to within plus or minus 4.6 per cent, 19 times out of 20.

FIGURE 1. AGE OF FHLI HOUSEHOLD HEADS



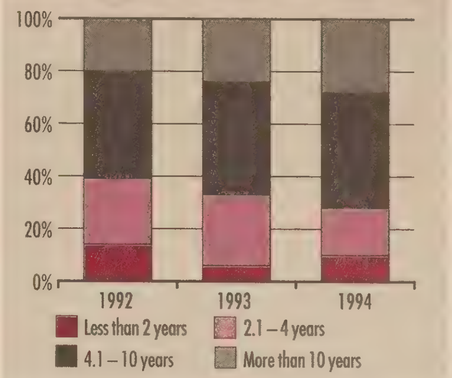
Source: 1986 Census of Canada custom tabulations *CMHC – MAC 1994*

TABLE 3. MOST FREQUENT SOURCE OF DOWNPAYMENT BY FHLI CLIENTS**

	1992	1993	1994
Savings*	81%	96%	81%
Equity from previous home	1%	–	2%
Gift from parents	10%	14%	8%

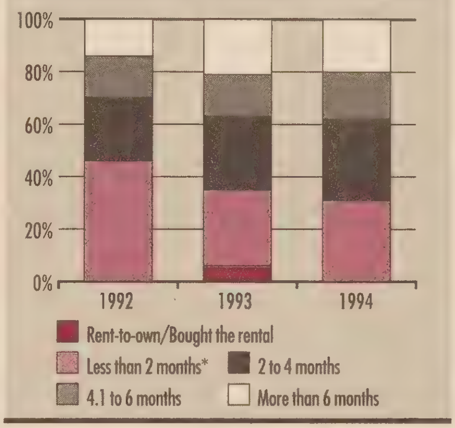
* Savings include RRSPs and other types of savings.
** Numbers do not add up to 100% because of the provision of multiple responses.

FIGURE 2. RENTAL PERIOD PRIOR TO THE PURCHASE (includes FHLI clients who rented prior to purchase)



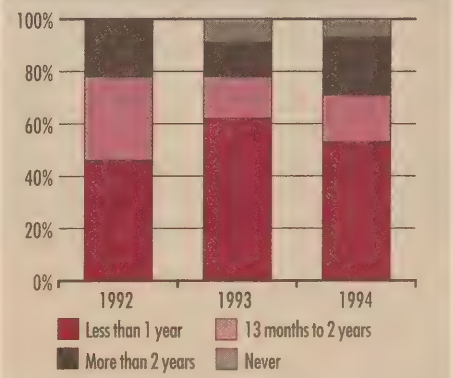
Source: 1986 Census of Canada custom tabulations *CMHC – MAC 1994*

FIGURE 3. TIME SPENT LOOKING FOR THE NEWLY PURCHASED HOME



* Includes those who rented to own or bought the rented home for 1992 figures.
Source: 1986 Census of Canada custom tabulations *CMHC – MAC 1994*

FIGURE 4. TIME IT WOULD HAVE TAKEN FHLI PARTICIPANTS TO BUY WITH A 10% DOWNPAYMENT



Source: 1986 Census of Canada custom tabulations *CMHC – MAC 1994*

INDICATORS OF MORTGAGE LENDING ACTIVITY

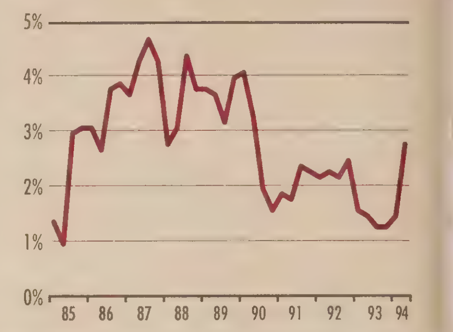
Mortgage Credit Outstanding[1] (in millions of dollars)

	1992	1993	1994[2]	93Q3	93Q4	94Q1	94Q2[e]
TOTAL	282,256	303,266	318,466	305,398	309,381	314,111	322,821
% change	9.3	7.4	6.5	1.3	1.3	1.5	2.8
Banks	123,583	146,813	164,079	148,822	156,722	158,815	169,342
Trust Co.	74,541	63,384	52,615	62,529	55,778	54,960	50,270
Caisses & CO-OP	38,112	41,405	43,840	41,816	42,453	43,392	44,287
Life Ins. Co.	19,844	21,215	21,828	21,247	21,499	21,748	21,907
Pension Funds	8,992	9,080	9,170	9,079	9,135	9,170	9,170
Fin. & Loan	17,184	21,369	26,936	21,906	23,793	26,025	27,847

(1) Seasonally Adjusted Data (2) Cumulative (e) Estimate

Source: Bank of Canada, CMHC *CMHC – MAC 1994*

Residential Mortgage Credit Growth *(in per cent)*



Source: Bank of Canada; CMHC *CMHC – MAC 1994*

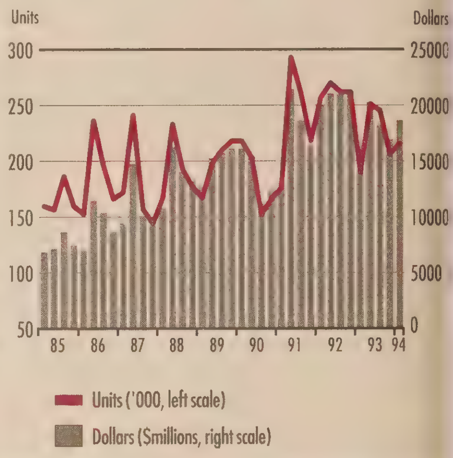
NHA and Conventional Loans Approved[1]

		1991	1992	1993	93Q2	93Q3	93Q4	94Q1
TOTAL	$ millions	70,059	82,935	71,665	20,203	18,283	16,927	18,656
	Units	962,356	1,047,914	893,016	254,409	235,083	205,804	216,087
NHA	$ millions	15,370	23,021	25,220	7,252	6,428	6,558	8,097
	Units	183,314	254,898	287,618	81,734	71,489	77,170	88,446
Conventional	$ millions	54,689	59,914	46,445	12,951	11,855	10,369	10,559
	Units	779,042	793,016	605,398	172,675	163,594	128,634	127,641
By Type of Lender								
Banks	$ millions	38,213	50,447	42,622	12,150	10,574	9,806	11,128
	Units	473,868	589,404	498,332	146,550	122,642	115,075	125,131
Trust Co.	$ millions	15,692	14,555	14,553	4,183	3,746	3,393	3,426
	Units	237,216	196,991	188,135	56,534	48,842	39,520	37,487
Life Ins. Co.	$ millions	5,044	5,310	4,624	1,273	1,151	1,307	1,546
	Units	94,333	90,751	78,175	20,041	19,785	22,664	23,023
Others	$ millions	11,110	12,623	9,866	2,597	2,812	2,421	2,556
	Units	156,939	170,768	128,374	31,284	43,814	28,545	30,446

(1) Not Seasonally Adjusted

Source: CMHC *CMHC – MAC 1994*

NHA and Conventional Approvals



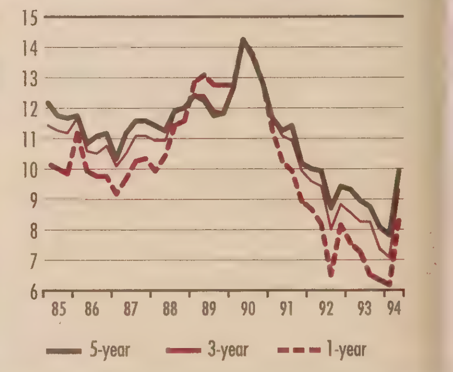
Source: CMHC *CMHC – MAC 1994*

Mortgage Rates (%) (Average of period)

	1992	1993	1994	93Q2	93Q3	93Q4	94Q1	94Q2
1-Year Mortgage Rate	7.87	6.91	7.23	7.25	6.50	6.33	6.17	8.28
3-Year Mortgage Rate	8.95	8.10	8.19	8.25	8.25	7.35	7.08	9.29
5-Year Mortgage Rate	9.51	8.78	8.87	8.95	8.75	8.08	7.82	9.92

Sources: Bank of Canada, CMHC *CMHC – MAC 1994*

Mortgage Rates *(per cent)*



Source: Bank of Canada *CMHC – MAC 1994*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Marc Pellerin, Capital Markets Economist, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 495-2199.

Mortgage Market Trends is a quarterly publication. Enquiries regarding subscription should be directed to:

Canada Communication Group-Publishing,
Ottawa, Canada K1A 0S9.
Tel.: (819) 956-4802; Fax: (819) 994-1498.

Annual subscription (4 issues) $44. + GST – Catalogue No. NH12-8E.
Single issue $11. + GST – Catalogue No. NH12-8-1994-3E.

Cette publication est aussi disponible en français sous le titre SCHL – Tendances du marché hypothécaire – LNH 6109 3T/94

ISSN 1188-4215
Printed in Canada

CMHC offers a wide range of housing-related information. For details, contact your local CMHC office.

CMHC subscribes to Canada's Green Plan. Quantities of our publications are limited to market demand; updates are produced only when required; and recycled or environmentally friendly stock and environmentally safe inks are used wherever possible.

NHA Mortgage-Backed Securities Second Quarter Issues
April 1994 to June 1994

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: April 1994						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96410121	LONDON LIFE INSURANCE CO.	14,901,384.65	7.000	March 01, 1999	7.70	22.67
96410246	PACIFIC COAST SAVINGS C.U.	13,998,823.13	6.125	April 01, 1999	7.33	22.17
96410279	BANQUE NATIONALE DU CANADA	11,114,932.02	6.500	February 01, 1999	7.37	23.42
96410311	M.R.S TRUST COMPANY	6,602,997.46	6.250	April 01, 1999	7.03	22.33
96410352	VANCOUVER CITY SAVINGS C.U.	16,557,433.34	5.750	March 01, 1997	6.67	24.00
96410360	VANCOUVER CITY SAVINGS C.U.	17,032,832.81	6.250	March 01, 1999	7.46	24.00
96410386	FIRST HERITAGE SAVINGS C.U.	3,225,483.60	6.750	March 01, 1999	7.50	21.67
96410410	WESTMINSTER SAVINGS C.U.	7,209,065.15	6.500	April 01, 1999	7.12	21.75
96410444	SECURITY HOME MORTGAGE INV. COR	2,323,855.29	6.000	April 01, 1997	6.63	26.25
96410451	SECURITY HOME MORTGAGE INV. COR	2,028,239.26	6.500	April 01, 1999	7.19	25.00
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500244	SECURITY HOME MORTGAGE INV. COR	5,216,872.72	6.250	April 01, 1999	7.21	24.92
96500251	MANUFACTURERS LIFE INS. CO.	20,322,927.99	7.250	June 01, 2004	8.00	22.17
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600192	PEOPLES TRUST COMPANY	96,699,968.42	6.375	April 01, 1999	8.00	28.00
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96700000	FIRSTLINE TRUST COMPANY	20,387,603.69	6.625	October 01, 1999	7.50	22.33
96700018	FIRSTLINE TRUST COMPANY	33,179,513.08	6.250	October 01, 1999	6.92	22.83
96700026	FIRSTLINE TRUST COMPANY	15,840,557.88	7.500	June 01, 1999	8.32	22.42
96700034	FIRSTLINE TRUST COMPANY	30,097,589.61	6.375	July 01, 1999	7.33	22.33
96700042	FIRSTLINE TRUST COMPANY	6,872,525.80	6.250	May 01, 1999	6.91	22.00
96700059	FIRSTLINE TRUST COMPANY	9,850,476.28	7.250	July 01, 1999	8.10	17.08
96700067	FIRSTLINE TRUST COMPANY	8,307,033.57	6.500	July 01, 1999	7.20	16.83
96700075	FIRSTLINE TRUST COMPANY	6,199,547.87	6.250	May 01, 1999	6.89	16.33
SOCIAL HOUSING POOLS						
99006074	FIDUCIE DESJARDINS INC.	4,437,030.00	6.125	April 01, 1999	6.66	35.00
99006108	TORONTO-DOMINION BANK	13,372,308.00	8.250	April 01, 1999	8.88	35.00
99006116	TORONTO-DOMINION BANK	5,885,129.00	8.375	April 01, 1999	8.89	35.00
99006124	CIBC MORTGAGE CORPORATION	3,573,203.00	7.625	April 01, 1999	8.44	35.00
99006132	CIBC MORTGAGE CORPORATION	8,208,020.00	6.875	April 01, 1997	8.10	35.00
99006140	BANK OF NOVA SCOTIA	4,285,039.00	7.375	April 01, 1999	8.75	35.00
MONTH OF ISSUE: May 1994						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96410394	M.R.S TRUST COMPANY	5,518,777.56	6.250	May 01, 1999	7.05	21.67
96410428	BANQUE NATIONALE DU CANADA	16,123,899.08	6.500	March 01, 1999	7.22	23.08
96410436	BANQUE NATIONALE DU CANADA	6,014,795.18	6.500	March 01, 1999	7.28	16.08
96410469	M.R.S TRUST COMPANY	2,533,982.29	5.875	May 01, 1997	6.76	23.08
96410477	WESTMINSTER SAVINGS C.U.	5,949,783.41	6.500	May 01, 1999	7.32	22.92
96410485	FIRST HERITAGE SAVINGS C.U.	4,193,529.69	6.750	May 01, 1999	7.39	22.17
96410519	SECURITY HOME MORTGAGE INV. COR	3,255,657.82	6.250	May 01, 1999	7.12	24.83
FHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96700083	MANUFACTURERS LIFE INS. CO.	8,875,588.01	7.750	May 01, 2019	8.59	22.08
96700091	MANUFACTURERS LIFE INS. CO.	11,710,947.82	7.250	July 01, 2004	8.44	21.92
96700109	MANUFACTURERS LIFE INS. CO.	2,768,683.57	7.375	July 01, 1999	8.18	16.67
96700117	MANUFACTURERS LIFE INS. CO.	9,491,743.97	6.125	July 01, 1999	7.06	22.75
96700125	MANUFACTURERS LIFE INS. CO.	2,581,110.56	7.250	July 01, 2004	8.16	12.67
96700133	MANUFACTURERS LIFE INS. CO.	4,727,264.22	7.375	July 01, 2004	8.09	16.25
96700141	MANUFACTURERS LIFE INS. CO.	2,909,247.42	8.125	July 01, 2004	8.91	16.75
96700158	MANUFACTURERS LIFE INS. CO.	8,824,296.10	7.250	July 01, 1999	8.25	21.92
96700166	MANUFACTURERS LIFE INS. CO.	4,025,786.82	6.250	August 01, 1999	7.11	16.58

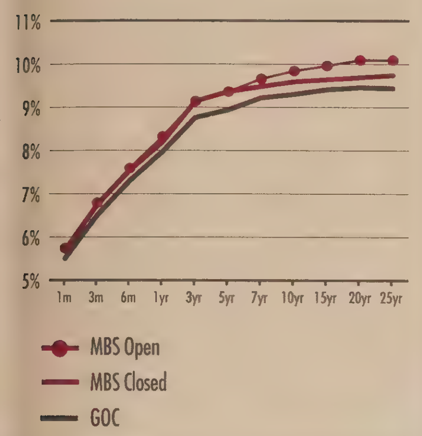
POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
SOCIAL HOUSING POOLS						
99006157	FIDUCIE DESJARDINS INC.	2,731,696.00	7.500	May 01, 1999	8.08	35.00
99006165	METROPOLITAN TRUST COMPANY	3,866,981.39	7.250	May 01, 1999	7.96	30.00
99006173	TORONTO-DOMINION BANK	24,196,431.00	8.125	May 01, 1999	8.73	35.00
99006181	TORONTO-DOMINION BANK	17,057,908.00	8.125	May 01, 1999	8.70	35.00
99006199	CIBC MORTGAGE CORPORATION	35,442,614.78	7.125	May 01, 1997	8.39	35.00
99006207	BANK OF NOVA SCOTIA	17,949,864.00	7.125	May 01, 1997	8.45	35.00
99006215	SUN LIFE ASSURANCE OF CANADA	22,709,897.11	8.375	November 01, 2000	12.00	31.50
99006223	SUN LIFE ASSURANCE OF CANADA	5,747,860.31	7.875	April 01, 1998	11.30	28.75
99006231	SUN LIFE ASSURANCE OF CANADA	6,688,128.60	8.000	December 01, 1998	12.48	29.58
MONTH OF ISSUE: June 1994						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96410402	HOUSEHOLD TRUST COMPANY	36,049,621.68	7.750	June 01, 1999	8.83	24.75
96410493	LONDON LIFE INSURANCE CO.	19,558,191.03	7.375	June 01, 1999	8.09	22.92
96410501	LONDON LIFE INSURANCE CO.	9,175,772.69	6.750	June 01, 1997	7.38	23.17
96410527	BANQUE NATIONALE DU CANADA	18,842,925.79	6.750	April 01, 1999	7.45	23.08
96410535	BANQUE NATIONALE DU CANADA	3,641,899.17	6.750	April 01, 1999	7.54	16.33
96410543	SECURITY HOME MORTGAGE INV. COR	2,250,736.65	7.125	June 01, 1999	7.94	24.67
96410550	LONDON LIFE INSURANCE CO.	16,555,803.98	5.750	June 01, 1997	6.57	23.17
96410576	LONDON LIFE INSURANCE CO.	40,315,724.22	6.500	June 01, 1999	7.29	22.92
96410584	LONDON LIFE INSURANCE CO.	7,841,373.18	6.750	June 01, 1999	7.67	16.92
96410592	VANCOUVER CITY SAVINGS C.U.	54,889,990.74	5.750	May 01, 1997	6.58	23.92
96410600	VANCOUVER CITY SAVINGS C.U.	68,450,304.47	6.500	June 01, 1999	7.25	24.08
96410634	BANQUE NATIONALE DU CANADA	8,342,074.86	8.000	May 01, 1999	8.79	23.00
96410642	BANQUE NATIONALE DU CANADA	30,152,223.45	6.500	May 01, 1999	7.39	24.00
96410659	WESTMINSTER SAVINGS C.U.	5,592,574.46	6.500	June 01, 1999	7.48	22.17
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500269	SECURITY HOME MORTGAGE INV.COR	3,932,952.05	8.250	June 01, 1999	9.17	24.33
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600200	PEOPLES TRUST COMPANY	27,596,079.70	8.000	June 01, 1999	8.88	27.08
96600218	CIBC MORTGAGE CORPORATION	44,191,257.34	8.750	June 01, 2004	9.27	30.00
FHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96700174	MANUFACTURERS LIFE INS. CO.	24,098,143.64	6.875	June 01, 2001	7.62	22.92
96700182	MANUFACTURERS LIFE INS. CO.	2,809,737.41	6.250	August 01, 1999	7.26	22.67
96700190	MANUFACTURERS LIFE INS. CO.	2,419,431.18	5.250	July 01, 1996	5.93	20.75
96700208	MANUFACTURERS LIFE INS. CO.	3,263,749.46	6.875	August 01, 2001	8.03	13.33
96700216	MANUFACTURERS LIFE INS. CO.	6,493,147.36	6.875	August 01, 2001	7.56	22.92
96700224	MANUFACTURERS LIFE INS. CO.	4,289,528.25	7.375	August 01, 2004	8.66	21.67
96700232	MANUFACTURERS LIFE INS. CO.	3,454,721.10	8.375	August 01, 2004	9.31	22.17
96700240	MANUFACTURERS LIFE INS. CO.	14,886,721.74	7.750	August 01, 2001	8.58	22.75
SOCIAL HOUSING POOLS						
99006249	TORONTO-DOMINION BANK	32,890,349.00	8.750	June 01, 1999	9.47	35.00
99006256	TORONTO-DOMINION BANK	32,838,768.00	8.875	June 01, 1999	9.50	35.00
99006264	CIBC MORTGAGE CORPORATION	2,796,827.66	7.875	June 01, 1999	8.85	35.00
99006280	BANK OF NOVA SCOTIA	22,200,544.59	7.875	June 01, 1999	8.75	31.75

NHA MORTGAGE-BACKED SECURITIES

PACE OF NHA MBS ISSUES RECOVERS

Stronger mortgage lending activity favoured new issues of National Housing Act Mortgage Backed Securities (NHA MBSs) during the second quarter of 1994. The pace of new issues returned to the $1 billion mark but is still held down by several factors.

NHA Mortgage-Backed Securities Yield Analysis – *June 30, 1994**



* Bid Side

Source: Burns Fry Limited — CMHC – MAC 1994

The second quarter of 1994 saw a rebound of NHA MBS activity with 81 new issues, for a total value of $1,173.4 million. This compares with 73 new issues, totalling $720.5 million, in the first quarter. The securities represent an undivided interest in a pool of NHA-insured residential mortgages.

The increase was mainly in single residential pools, which amounted to $708.6 million, up from the first quarter value of $399.4 million. Issues of multiple residential and mixed pools also rose in the April to June period, while activity in social housing pools remained fairly steady. The new social housing MBSs amounted to $266.9 million compared to $270.1 million in the previous quarter.

Although the April-June volume of MBS issues rose, it was about the same as that of a year ago. The rebound was due to a stronger housing market (see page 1 for details) which prompted some lenders to produce new issues to obtain funds for mortgage lending.

Several factors have contributed to the pace of new MBS issues until now in 1994. First, the increase in mortgage rates limited the supply of loans eligible for pooling (see the interest rate data on page 8). Lenders prefer creating residential single pools with terms of five years or more to make up for issuance costs. But high interest rates kept borrowers away from five year mortgages. An informal CMHC survey indicates that only 20 per cent of borrowers, for both conventional and NHA insured mortgages, chose five year terms in the first and second quarter of this year. More than 60 per cent favoured terms of one year or less.

As well, issuers have been reluctant to create new pools because profitability was so low. Five-year mortgage rates stood only 157 basis points higher than the yield of five year Government of Canada bonds (GOCs) during the second quarter. Lenders usually set the five year rate at about 180 200 basis points above the five year GOC yield to make up for administration costs and ensure profit. But hefty competition among lenders prevented them from raising rates as much as financial markets would appear to dictate.

Moreover, the volatile environment that has plagued financial markets so far this year also had an impact on the MBS market. Although MBS returns have remained attractive, buyer interest has been limited.

Because of the low supply of new NHA MBSs, their prices stayed high, maintaining a tight yield spread between MBSs and GOCs for the five year maturity during the April June period. (See data on page 8.)

The emergence of Collateralized Mortgage Obligations (CMOs) in 1993 also contributed to the narrowing in yield spreads between MBSs and GOCs since last year. CMOs give investors more choices in the way they will be reimbursed for principal and interest from the underlying mortgages. As a result, CMOs increased the demand for MBSs and, as a result, their liquidity.

At the end of June 1994, the total amount of credit outstanding through NHA MBSs stood at $16,835.6 million. This represents 5.2 per cent of outstanding residential mortgage credit in Canada.

The second quarter of 1994 saw the first issues of single residential pool, in which the MBS issuers retain the Penalty Interest Payment (PIP) arising from early prepayments of the mortgages. These pools are prefixed with the number 967. In the traditional pools, prefixed with the number 964, the PIP will now be passed on to the investors. Both pools are considered the prepayable type.

NHA Mortgage-Backed Securities Yield Analysis – *Market close, July 29, 1994**

GOC description				
Coupon Rate	Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
7.75%	09/96	Open	31	8.40%
6.50%	08/96	Open	35	8.77%
7.50%	07/97	Open	35	9.02%
7.50%	07/97	Closed	23	8.90%
5.75%	03/99	Open	36	9.11%
5.75%	03/99	Closed	23	8.98%
7.50%	12/03	Open	44	9.64%

* Bid Side

Source: Telerate; average for MBS traders — CMHC – MAC 1994

ASSESSING MBS PERFORMANCE: BEYOND THE PREPAYMENT FACTOR

by Yvon Fauvel, Professor, Université du Québec à Montréal and Marc Godbout, Consultant*

How can we predict the performance of NHA mortgage-backed securities (MBSs) with reasonable certainty? For most investors and investment dealers, the answer is by studying prepayment rates, that is, the rate at which borrowers pay down their mortgages and thus lower the interest-yielding sum. The assumption is that prepayment is the main factor affecting MBS yields and that, moreover, it is directly linked to interest rates.

In this article, we present a method for assessing prepayable, five-year NHA MBSs based on a broad range of factors. Because the approach is comprehensive, it is potentially more accurate than the somewhat simplistic prepayment model.

The industry approach vs the proposed approach

When focusing on prepayments to assess MBS yields, some investors and brokers make projections using past prepayment rates. Others have developed econometric models of prepayment rates using the specific characteristics of each security, namely: mortgage age, interest rate, average amortization period of mortgage pool as well as the security maturity date.

Our experience here in Canada with NHA MBSs shows that prepayments are not motivated solely by decreases in interest rates and characteristics of NHA MBSs. Five-year term mortgages appear less sensitive to fluctuations in the interest rate than to other factors. Therefore, it is appropriate to put more emphasis on a comprehensive series of economic and financial factors. These factors reflect the characteristics of Canadian NHA MBS as well as their economic and financial risks for investors.

Main economic and financial variables

The yield spread between the NHA MBSs and federal government five-year bonds (GOCs) is assumed to be contingent on three groups of variables. The first group reflects the demand conditions faced by NHA MBSs. The second group presents a picture of supply conditions for MBSs. The last group of variables considered is a set of economic indicators selected to approximate the prepayment activity.

Based on an econometric model and on data for the period from January 1987 to December 1993, the impact of these economic and financial variables on the NHA MBS yield spread is estimated. Table 1 presents the main results.

> MBS yields are affected by many variables other than prepayments.

Demand factors

The analysis indicates that demand conditions are a determinant factor in assessing MBS yield spread over GOCs. Indeed, a 20 basis points (one basis points is one hundreth of a percentage point) increase in yield spread between corporate and federal government mid-term bonds will, after two months, leads to an increase of the MBS spread by approximately 5 basis points. This yield spread is a good indicator of demand as financial securities are assessed in relation to a substitute with either the same credit quality and/or the same liquidity. Thus, when the spread makes corporate securities more attractive than MBSs, investors tend to sell MBSs to buy corporate bonds. This situation reduces the demand for the MBS, reduces its price, and henceforth increases its performance spread.

The price and the yield of MBSs move in opposite directions. For example, an increase in interest rates will make low rate MBSs issues less attractive. Investors will buy these issues only at a lower price so that the net yield is equivalent to the yield available on issues carrying a higher interest rate.

Supply factors

Any increase in the supply relative to the demand for MBSs causes prices to drop and therefore widens the spread between MBSs and GOCs everything else being equal. The model indicates that an increase of 10 per cent in the outstanding amount of MBSs leads to an increase of 1.75 basis point of the yield spread between NHA MBSs and GOCs whereas an equivalent increase in the number of mortgage loans securitizable will increase the spread by 0.57 basis point.

On the other hand, the spread is reduced y 0.60 basis point on a monthly basis as the HA MBS Program acquires maturity. Ineed, market liquidity improves over time ; investors become more knowledgeable bout NHA MBSs.

repayment factors

he variables which pick up prepayments re the yield curve; the variation in threeonth Treasury Bills; and the average rice of single-family homes in Canada. The yield curve, i.e, the spread between e yield on five-year GOCs and the yield n three-month Treasury Bills, captures e effect of interest rates expectations on prepayments. A positive yield spread between GOCs and three-month Treasury Bills means that investors expect higher interest rates on average for the next five years. Higher expected interest rates make early prepayments less likely and thus reduce the spread between MBSs and GOCs.

The variation in three-month Treasury bills captures the effect of current interest rate changes on prepayments. Rising Treasury Bills rates reduce prepayment risks as mortgagors are not expected to refinance at higher rates.

House prices capture the households' wealth effect on prepayments. An appreciation in house prices will make prepayments less likely as households' wealth increases which contributes to reduce the yield spread between MBSs and GOCs. On the opposite, falling house prices increase the probability of defaults and therefore prepayments.

Results indicate that a decrease of 100 basis points on the yield curve increases the securities' yield rate spread by 3.43 basis points. A positive 100 basis points variation in the Treasury bond yield rate reduces the spread by 2.48 basis points. Lastly, a five-per-cent increase in the price of houses means a decrease of 2.75 basis points in the NHA MBS yield spread.

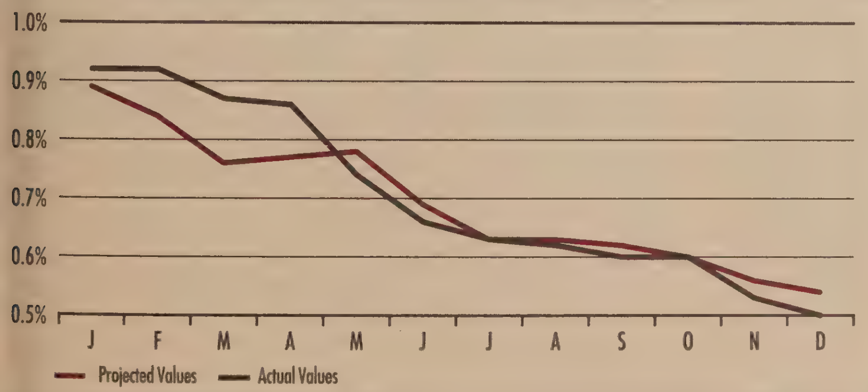
All the economic and financial variables chosen are sufficient to explain over 90 per cent of the yield spread between NHA MBS and federal government five-year bonds.

ABLE 1. ECONOMIC AND FINANCIAL VARIABLES EXPLAINING THE YIELD SPREAD BETWEEN NHA MORTGAGE-BACKED SECURITIES AND FIVE-YEAR GOVERNMENT OF CANADA BONDS

/ARIABLES	VARIATION	RESULT ON THE YIELD SPREAD (in basis points)
Demand Factors		
• Corporate Bond Yield over GOC yield	+ 20 basis points	+ 4.65
Supply Factors		
• Outstanding amount of MBSs	+ 10 per cent	+ 1.75
• Five-year securitizable loans	+ 10 per cent	+ 0.57
• Maturity of the NHA Program	1 month	− 0.60
Prepayment Factors		
• Term Structure of Interest Rates	+ 100 basis points	− 3.43
• Change in Three-month T-bills	+ 100 basis points	− 2.48
• Average MLS Prices	+ 5 per cent	− 2.75

CMHC – MAC 1994

GRAPH 1. PROJECTION OF YIELD SPREAD BETWEEN NHS MBS AND FEDERAL GOVERNMENT FIVE-YEAR BONDS FOR THE YEAR 1993



CMHC – MAC 1994

Predictive power

To see if the model could accurately predict the yield spread between the NHA MBS and the federal government five-year bonds, the model was re-estimated for the period from 1987 to 1992 and then, an out-of-sample projection for the 12 months of 1993 was produced. Graph 1 presents the results of this simulation. On the whole, the model gave a good indication of the future NHA MBS spread and picked up turning points. The projections for the month of February, March and April did, however, significantly underestimate the yield spread. In all likelihood, this may be due to the impact of shocks on currency markets early in 1993.

* The views expressed or implied in this article are those of the authors and not Canada Mortgage and Housing Corporation.

A copy of the technical paper can be obtained from Marc Pellerin at (613) 748-2506.

NHA MORTGAGE-BACKED SECURITIES

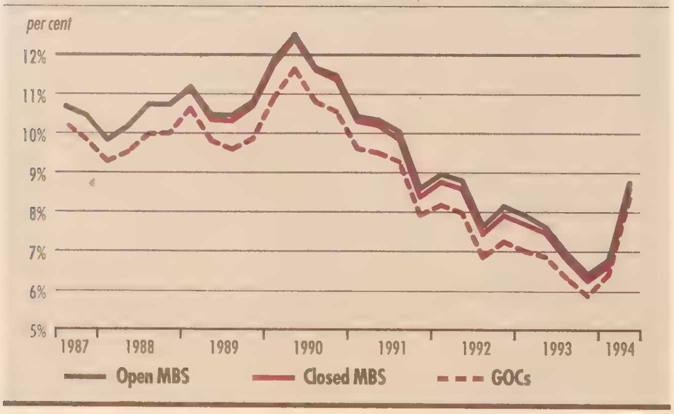
(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

		1992	1993	1994	93Q3	93Q4	94Q1	94Q
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	11,954.8	16,308.2	16,835.6	15,423.3	16,308.2	16,382.8	16,835
	Units	1,102	1,415	1,438	1,372	1,415	1,439	1,47
Residential, single (with PIP)[2]	$million	6,969.6	8,623.4	8,490.2	8,208.0	8,623.4	8,589.2	8,490
	Units	646	847	878	802	847	870	87
Residential, single (no PIP)	$million	0.0	0.0	247.2	0.0	0.0	0.0	247
	Units	0	0	25	0	0	0	2
Residential, multiple	$million	85.7	553.9	757.9	356.4	553.9	591.3	757
	Units	5	14	19	10	14	16	1
Social Housing	$million	4,643.7	6,886.2	7,091.5	6,602.0	6,886.2	6,967.5	7,091
	Units	435	532	530	538	532	530	53
Mixed	$million	255.8	244.6	248.8	257.0	244.6	234.8	248
	Units	16	22	26	22	22	23	2
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	5,959.4	6,579.8	1,893.9	1,983.0	1,571.3	720.5	1,173
	Units	388	428	154	109	98	73	8
Residential, single (with PIP)	$million	3,744.3	3,410.8	859.3	950.1	885.6	399.4	460
	Units	243	273	79	69	73	48	3
Residential, single (no PIP)	$million	0.0	0.0	248.4	0.0	0.0	0.0	248
	Units	0	0	25	0	0	0	2
Residential, multiple	$million	56.1	472.2	207.5	61.9	198.8	39.0	168
	Units	1	10	5	2	4	2	
Social Housing	$million	2,052.8	2,652.5	537.0	945.1	486.9	270.1	266
	Units	136	139	41	34	21	22	1
Mixed	$million	106.3	44.2	41.5	26.1	0.0	12.0	29
	Units	8	6	4	4	0	1	
YIELDS (5-YEAR MATURITY, %)								
MBS Prepayable (with PIP)		8.37	7.21	7.76	6.94	6.41	6.78	8.7
MBS Prepayable (no PIP)		–	–	7.74	6.79	6.24	6.63	8.8
MBS Non-prepayable		8.16	7.04	7.61	6.79	6.24	6.63	8.5
MBS MMUF		8.28	7.15	7.70	6.92	6.34	6.75	8.6
MBS Hybrid		8.37	7.22	6.78	6.96	6.41	6.78	
Mortgage rates		9.51	8.78	8.87	8.75	8.08	7.82	9.9
GOCs		7.56	6.51	7.38	6.32	5.86	6.41	8.3
SPREADS OVER GOC (5-YEAR MATURITY, %)								
Prepayable (with PIP)		0.82	0.70	0.39	0.62	0.54	0.38	0.3
Prepayable (no PIP)		–	–	0.44	0.64	0.54	0.38	0.4
Non-prepayable		0.61	0.53	0.23	0.47	0.37	0.22	0.2
MMUF		0.72	0.63	0.32	0.60	0.48	0.34	0.2
Hybrid		0.82	0.71	0.38	0.64	0.54	0.38	
Mortgage Rates		1.96	2.26	1.49	2.43	2.22	1.41	1.5

(1) Cumulative (2) PIP stands for Penalty Interest Payments Not seasonally adjusted data.

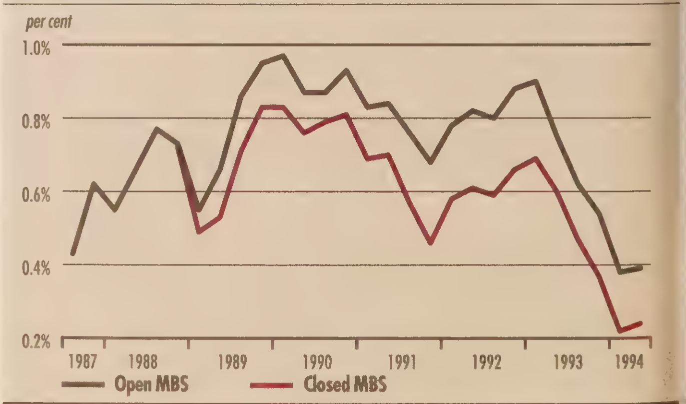
Source: CMHC, Burns Fry Limited *CMHC – MAC1*

Selected Interest Rates (5-year maturity)



Source: Burns Fry Limited *CMHC – MAC 1994*

Spreads over GOCs (5-year maturity)



Source: Burns Fry Limited *CMHC – MAC 1994*

CMHC MORTGAGE MARKET

TRENDS

ARKET ANALYSIS CENTRE

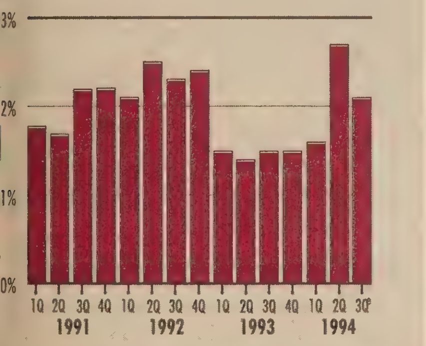
FOURTH QUARTER 1994

ORTGAGE LENDING

HIGHER RATES COOL DOWN MORTGAGE LENDING

Higher interest rates in the early part of 1994 slowed the pace of mortgage credit growth in the third quarter. With further rate hikes in sight, mortgage lending activity is expected to remain sluggish for several quarters.

esidential Mortgage Credit Growth*
rom previous quarter)



ominal e: estimate
rce: Bank of Canada, CMHC — CMHC – MAC 1994

arket Share of Residential Mortgage Credit

	3Q93	2Q94	3Q94^e
nks	49.0%	52.9%	53.1%
ust	20.6%	15.7%	15.3%
isses & Co-op	13.7%	13.7%	13.5%
fe	7.0%	6.8%	6.7%
ension Funds	2.5%	2.3%	2.3%
n. & Loan	7.2%	8.7%	9.0%

stimate
rce: Bank of Canada, CMHC — CMHC – MAC 1994

Residential mortgage credit edged up by 2 per cent in the third quarter of 1994 to reach a total of $328.8 billion. This compares with a growth rate of 2.7 per cent during the preceding quarter.

The slower pace of expansion in the third quarter occurred despite rapid job creation and a fall in interest rates during this period. The second quarter, by contrast, saw interest rates rise and mortgage credit grow because the rate hikes spurred many consumers to jump into the housing market before rates could go higher still.

During the July-September period, one- and five-year mortgage rates dropped from 8.7 and 10.75 per cent to 8 and 9.9 per cent, respectively. But rates were still well above the record 29-year low of 5.75 and 7.25 per cent seen in February.

The bite of high rates affected both the new home and resale markets and both played a role in the easing of mortgage credit expansion.

New home starts dropped 8.1 per cent to an annual rate of 153,200 units (adjusted for normal seasonal patterns). The decline encompassed both single and multiple markets. High rates also kept new house prices from rising during the third quarter.

Sales of existing homes through the Multiple Listing Service (MLS)[1] were down 12.6 per cent to an annual rate of 264,000 units (seasonally adjusted). Prices rose by a moderate 0.9 per cent, reflecting a gradual shift in this market to move-up buyers who seek more expensive homes.

The outlook for the end of 1994 and the early part of 1995 is higher interest rates, which will slow the growth of mortgage credit. Preliminary data on housing starts and existing home sales suggest that the slowdown continues. But for the year as a whole, mortgage credit will likely have expanded by 7.5 per cent, about the same pace as in 1993.

According to third-quarter data, the banks dominate the residential mortgage market, holding 53.1 per cent of mortgage credit outstanding. Trust companies' share stands at 15.3 per cent, which is slightly above the 13.5 per cent held by credit unions. The distribution of mortgage credit among the other types of financial institutions remained relatively unchanged this quarter.

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

HOMEOWNERS KEEN ON SHORTER MORTGAGE TERMS

Fluctuating mortgage rates have made shorter mortgage terms attractive to many Canadian homeowners and many may be wishing thay had not locked themselves into longer terms. Owners should, however, also weigh the risks of a short term before jumping onto any mortgage bandwagon. Lenders may find also that more consumers will actually stick with longer terms, particularly if rates keep rising in 1995.

According to a recent survey on consumer preferences (September 1994), 48 per cent of homeowners holding mortgages in Canada would choose a term of one year or less if they had to renew in the near future (Figure 1). Nearly 25 per cent would choose a two- to four-year mortgage, while only 13 per cent would opt for the five-year term. A mere 4 per cent would select a maturity longer than that. Thirteen per cent did not state a preference.

These findings come from the Financial Industry Research Monitor (FIRM) survey (1). Conducted every quarter, the survey asks a random sample of about 2,500 homeowners about their finances and plans, particularly regarding mortgages.

Why go for shorter terms?

The shorter-term mortgages have become popular because of the substantial difference between the one- and five-year rates at the time of the survey. The spread narrowed in early December as the one-year rate rose to 9.5 per cent and the five-year to 10.5 per cent.

Owners may also be expecting interest rates to drop, after the steep hikes seen in the spring, summer and December. Choosing a shorter term now would allow owners to benefit from the lower rates when the mortgage comes up for renewal.

Longer terms common

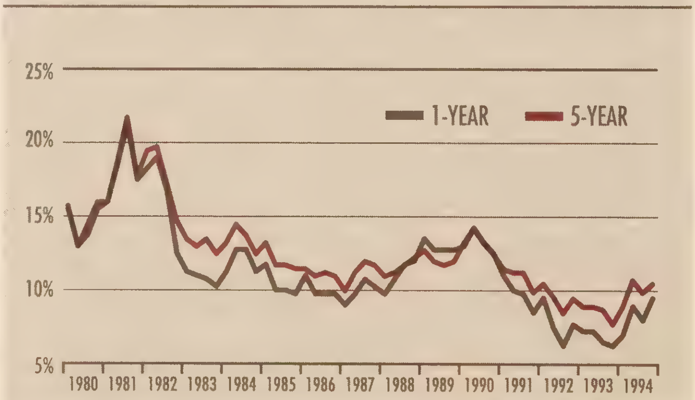
The kind of mortgages many owners now want is at odds with what they actually have. A full 42 per cent of homeowners report holding longer, five-year mortgages, while only 20 per cent have the six-month or one-year variety.

There are two main reasons why so many people have locked into longer terms.

First, a few years ago the five-year mortgage seemed quite attractive. From spring of 1988 to spring of 1991, the five-year rate was just slightly higher than the one-year rate (Figure 2), and in 1989 it was actually lower. This low or even negative spread is common during periods of severe monetary tightening when short term rates rise more than long term rates.

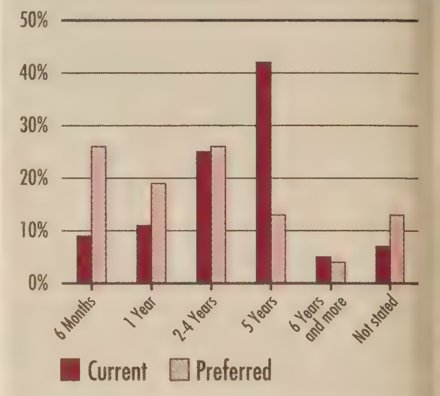
Second, in recent years the market has been dominated by first-time buyers who need the security of long-term mortgages. It is easier for these buyers to pay at fixed rate over many years than to take a short term and face the risk of rising interest rates. This is why CMHC initially required that buyers under the First Home Loan Insurance plan take a five-year mortgage. They no longer need to do so, but they still must meet certain financial criteria if they want a one-year mortgage.

Figure 2. 1 and 5 year mortgage interest rates (in %)



Source: Bank of Canada CMHC–MAC 1994

Figure 1. Owners Want Shorter Terms



Source: Clayton Research CMHC–MAC 1994

A word of caution

Although interest rates may drop, owners should not be influenced by this factor alone.

First-time buyers, and others whose finances are fragile, should still consider the benefits of a longer-term mortgage. They must weigh the extra cost of a longer term against the advantage of a guaranteed rate for a number of years.

More experienced, financially secure owners might be in a better position to take advantage of low-cost, short-term rates.

What for lenders?

More consumers, when faced with the mortgage renewal decision in the coming year, could actually choose longer terms than is suggested by the survey.

There are two reasons. First, the upward trend in rates may lead to a run for the certainty of longer mortgage terms, especially for consumers whose finances are fragile. Second, the spread between the one- and five-year rates may narrow which would make the longer terms less costly in relative terms.

(1) Please contact Clayton Research at (416) 699-5645 for details.

RESIDENTIAL MORTGAGES HAVE BECOME BIG BUSINESS

)ver the past 30 years, financial institutions have increasingly relied on residential mortgages as one of their najor sources of business. The mortgage boom has been fuelled partly by strong demand from consumers seeking oans to cover their housing needs. But supply-side factors have played a role as well. Mortgages are low-risk ssets for lenders. They are a good way to diversify assets. And they provide a means of attracting clients to other inancial services that the lending institution offers.

In recent decades, the residential mortgage market has expanded alongside eal estate markets to become an industry vorth $320 billion in 1994. The pace of xpansion has slowed since 1990. Neverheless, thanks to an annual growth rate of early 12 per cent, mortgage business early tripled during the 10 year period of 984 to 1994.

Various reasons account for the spectacuar rise of the mortgage market. The prime mpetus has been demand. Population growth has promoted housing needs, and his, along with higher home prices, has led onsumers to increasingly rely on borrowng to finance their purchases.

As well, financial institutions have been propelled into the mortgage market because of the investment and business opportunities involved. Compared with other kinds of loans, residential mortgages are considered low-risk investments by the Superintendent of Financial Institutions. For example, there is virtually no risk to enders in offering CMHC-insured mortgages.

Another clear advantage is the potential of residential mortgages to generate revenue. In recent years, returns on mortgages have been much higher than returns on business oans. Mortgages are therefore a good way for institutions to manage investment risks and diversify their assets.

Finally, mortgages can be used as a mean to build a clientele for other services — an mportant consideration in the deregulated environment of the 1990s.

Institutions now use the residential mortgages as the cornerstone of the relationship with non-business clients. A household that takes out a mortgage with a certain lender is more likely to purchase other services such as banking and Registered Retirement Savings Plans from the same institution.

The emergence of various mortgage options, such as flexible terms and pre-payment privileges have also promoted the use of residential mortgages.

Who are the major players?

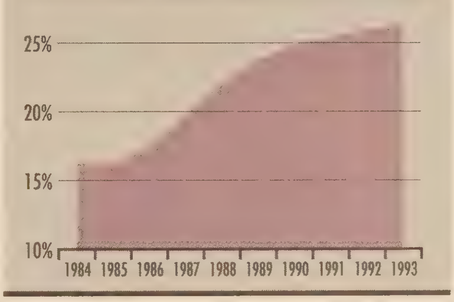
By the end of 1993, residential mortgages formed some 26 per cent of the total assets of financial institutions involved in mortgage lending (Figure 1). A decade ago, by comparison, this figure was only 16 per cent.

A variety of institutions are now involved in mortgage lending, but the biggest players are chartered banks, trust companies and credit unions (Figure 2). As the graph shows, chartered banks appear to be gaining an ever-increasing share of the market, while credit unions are maintaining their share.

The sheer size of the market and the returns that mortgages generate has led to stiff competition among lenders and the introduction of new mortgage products and options. The chartered banks have been the most successful in this effort. Not only have they expanded their market share, they have doubled the size of their residential mortgage portfolio relative to their total assets in the last eight years (Figure 3).

In short, residential mortgages have become a key portfolio during the 1980s and 1990s. Their importance has grown because of the size of the market, the strength of consumer demand, and the advantages they offer to lenders — namely, high returns, low risk and a means of risk diversification. These factors, coupled with the importance of mortgages in customer relations, are bound to maintain, or even raise, the profile of this portfolio in the years to come.

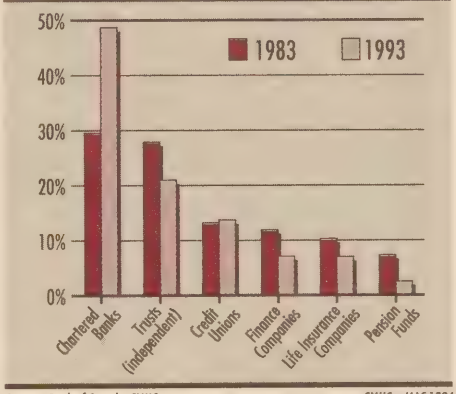
FIGURE 1. Residential Mortgages in a percentage of Assets*



* These financial institutions include Chartered Banks (both schedule A and B), Trust Companies (both independent and bank associated), Credit Unions, and Finance Companies.

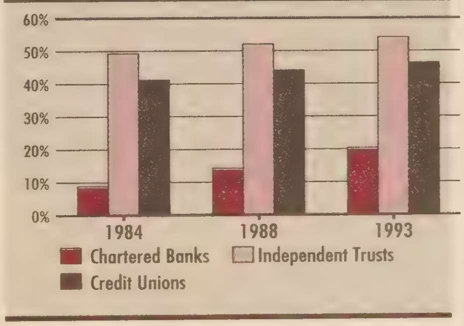
Source: 1986 Census of Canada custom tabulations *CMHC – MAC 1994*

FIGURE 2. Residential Mortgage/ Total Residential Mortgage



Sources: Bank of Canada, CMHC *CMHC – MAC 1994*

FIGURE 3. Residential Mortgages/Asset*



* Estimates of assets for life insurance and finance companies and pension funds were not available, and as a result they were not included.

Sources: Bank of Canada, CMHC *CMHC – MAC 1994*

INDICATORS OF MORTGAGE LENDING ACTIVITY

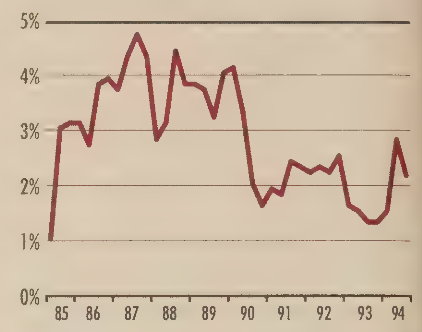
Mortgage Credit Outstanding[1] (in millions of dollars)

	1992	1993	1994[2]	93Q4	94Q1	94Q2	94Q3[e]
TOTAL	281,116	302,052	321,517	308,758	313,624	322,160	328.766
% change	9.2	7.4	7.2	1.5	1.6	2.7	2.1
Banks	123,583	147,181	168,256	157,814	159,864	170,344	174,559
Trust Co.	74,541	63,329	52,002	55,556	55,180	50,513	50,312
Caisses & CO-OP	38,101	41,393	43,918	42,463	43,282	43,998	44,474
Life Ins. Co.	19,844	21,215	21,892	21,499	21,701	21,845	22,130
Pension Funds	7,863	7,565	7,603	7,634	7,571	7,550	7,689
Fin. & Loan	17,184	21,369	27,846	23,793	26,025	27,911	29,602

(1) Seasonally Adjusted Data (2) Cumulative (e) Estimate

Source: Bank of Canada, CMHC *CMHC – MAC 1994*

Residential Mortgage Credit Growth
(in per cent)



Source: Bank of Canada; CMHC *CMHC – MAC 1994*

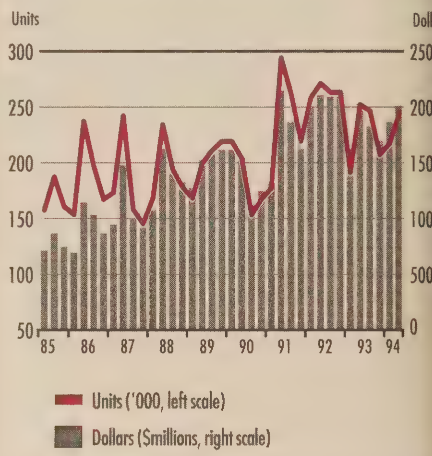
NHA and Conventional Loans Approved[1]

		1991	1992	1993	93Q3	93Q4	94Q1	94Q2
TOTAL	$ millions	70,059	82,935	71,665	18,283	16,927	18,656	20,985
	Units	962,356	1,047,914	893,016	235,083	205,804	216,087	243,841
NHA	$ millions	15,370	23,021	25,220	6,428	6,558	8,097	8,349
	Units	83,314	254,898	287,618	71,489	77,170	88,446	98,298
Conventional	$ millions	54,689	59,914	46,445	11,855	10,369	10,559	12,636
	Units	779,042	793,016	605,398	163,594	128,634	127,641	145,543
By Type of Lender								
Banks	$ millions	38,213	50,447	42,622	10,574	9,806	11,128	13,024
	Units	473,868	589,404	498,332	122,642	115,075	125,131	146,898
Trust Co.	$ millions	15,692	14,555	14,553	3,746	3,393	3,426	3,359
	Units	237,216	196,991	188,135	48,842	39,520	37,487	38,421
Life Ins. Co.	$ millions	5,044	5,310	4,624	1,151	1,307	1,546	1,172
	Units	94,333	90,751	78,175	19,785	22,664	23,023	17,887
Others	$ millions	11,110	12,623	9,866	2,812	2,421	2,556	3,430
	Units	156,939	170,768	128,374	43,814	28,545	30,446	40,635

(1) Not Seasonally Adjusted

Source: CMHC *CMHC – MAC 1994*

NHA and Conventional Approvals



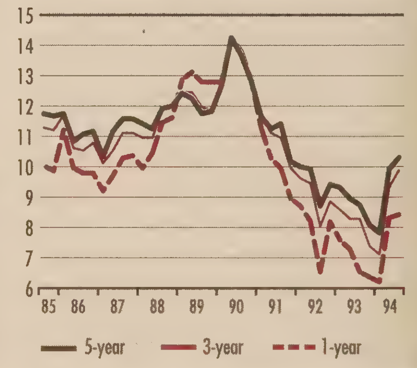
Source: CMHC *CMHC – MAC 1994*

Mortgage Rates (%) (Average of period)

	1992	1993	1994	93Q3	93Q4	94Q1	94Q2	94Q3
1-Year Mortgage Rate	7.87	6.91	7.61	6.50	6.33	6.17	8.28	8.38
3-Year Mortgage Rate	8.95	8.10	8.74	8.25	7.35	7.08	9.29	9.84
5-Year Mortgage Rate	9.51	8.78	9.35	8.75	8.08	7.82	9.92	10.30

Sources: Bank of Canada, CMHC *CMHC – MAC 1994*

Mortgage Rates *(per cent)*



Source: Bank of Canada *CMHC – MAC 1994*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Marc Pellerin, Capital Markets Economist, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 495-2006.

Mortgage Market Trends is a quarterly publication.
To order, call 1-800-304-8736, fax 1-800-463-3853 or mail your order form to:
CMHC, P.O. Box 3077,
Markham, Ontario L3R 6G4

Annual subscription (4 issues) $44. + GST – Catalogue No. NH12-8E.
Single issue $11. + GST – Catalogue No. NH12-8-1994-4E.

Cette publication est aussi disponible en français sous le titre SCHL – Tendances du marché hypothécaire – LNH 6109 4T/94

ISSN 1188-4215
Printed in Canada

CMHC offers a wide range of housing-related information. For details, contact your local CMHC office.

CMHC subscribes to Canada's Green Plan. Quantities of our publications are limited to market demand; updates are produced only when required; and recycled or environmentally friendly stock and environmentally safe inks are used wherever possible.

NHA Mortgage-Backed Securities Third Quarter Issues

July 1994 to September 1994

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: July 1994						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96410568	LONDON LIFE INSURANCE CO.	16,387,892.83	7.375	July 01, 1999	8.71	22.67
96410618	HOUSEHOLD TRUST COMPANY	2,041,211.02	8.500	July 01, 1999	9.80	24.08
96410626	PACIFIC COAST SAVINGS C.U.	4,999,389.76	7.250	July 01, 1997	8.64	22.17
96410667	SECURITY HOME MORTGAGE INV.COR	4,946,703.04	8.250	July 01, 1999	9.35	24.58
96410675	BANQUE NATIONALE DU CANADA	29,399,026.05	6.500	July 01, 1999	7.24	24.08
96410683	BANQUE NATIONALE DU CANADA	13,187,850.16	7.375	July 01, 1999	8.00	24.33
96410691	BANQUE NATIONALE DU CANADA	13,079,248.70	8.375	July 01, 1999	9.28	23.00
96410709	SECURITY HOME MORTGAGE INV.COR	2,346,181.81	8.375	July 01, 1999	9.38	25.00
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS, NON PIP)						
96700257	MANUFACTURERS LIFE INS. CO.	17,105,814.11	8.375	August 01, 1999	9.05	22.58
96700265	MANUFACTURERS LIFE INS. CO.	26,015,890.55	7.875	October 01, 1999	8.94	20.83
96700273	MANUFACTURERS LIFE INS. CO.	2,595,046.05	8.125	July 01, 2019	9.03	21.75
SOCIAL HOUSING POOLS						
99006272	FIDUCIE DESJARDINS INC.	2,428,012.00	8.375	July 01, 1999	8.99	35.00
99006298	TORONTO-DOMINION BANK	14,136,750.00	9.375	July 01, 1999	9.92	35.00
99006306	TORONTO-DOMINION BANK	14,389,360.00	9.375	July 01, 1999	9.91	35.00
99006314	CIBC MORTGAGE CORPORATION	11,990,768.86	8.250	July 01, 1997	9.62	35.00
99006322	CIBC MORTGAGE CORPORATION	7,248,651.00	8.875	July 01, 1999	9.74	35.00
99006330	BANK OF NOVA SCOTIA	27,929,962.97	7.000	July 01, 1997	9.60	34.58
99006348	BANK OF NOVA SCOTIA	2,154,880.00	8.250	July 01, 1999	10.00	35.00
99006355	SUN LIFE ASSURANCE OF CANADA	10,029,398.32	9.250	September 01, 2004	12.20	30.17
MONTH OF ISSUE: August 1994						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96410717	LONDON LIFE INSURANCE CO.	15,008,130.14	8.250	August 01, 1999	9.42	23.25
96410725	LONDON LIFE INSURANCE CO.	10,003,033.77	6.750	August 01, 1999	8.09	23.00
96410733	LONDON LIFE INSURANCE CO.	12,600,319.82	8.250	August 01, 1997	8.88	23.42
96410741	LONDON LIFE INSURANCE CO.	6,003,263.57	6.750	August 01, 1997	8.37	23.33
96410758	SECURITY HOME MORTGAGE INV.COR	2,699,474.75	8.250	August 01, 1999	9.44	25.00
96410766	M.R.S TRUST COMPANY	6,071,972.66	8.375	August 01, 1999	9.23	22.25
96410782	VANCOUVER CITY SAVINGS C.U.	55,027,550.30	5.750	June 01, 1997	6.87	23.92
96410790	VANCOUVER CITY SAVINGS C.U.	89,330,334.63	6.500	June 01, 1999	7.43	23.50
96410824	HOUSEHOLD TRUST COMPANY	2,196,526.44	8.000	August 01, 1997	9.67	24.75
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500277	SECURITY HOME MORTGAGE INV.COR	3,659,536.17	8.250	August 01, 1997	8.94	24.42
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600226	PEOPLES TRUST COMPANY	10,276,317.79	9.000	August 01, 1999	9.99	28.83
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS, NON PIP)						
96700281	MANUFACTURERS LIFE INS. CO.	2,687,713.28	7.375	September 01, 2004	8.70	11.58
96700299	MANUFACTURERS LIFE INS. CO.	2,094,012.96	6.875	September 01, 1996	8.03	21.17
96700307	MANUFACTURERS LIFE INS. CO.	6,017,788.08	7.000	August 01, 1999	8.11	11.83
96700315	MANUFACTURERS LIFE INS. CO.	3,160,395.08	8.000	September 01, 2004	9.19	19.67
96700323	MANUFACTURERS LIFE INS. CO.	2,038,267.47	9.250	October 01, 1999	10.27	21.58
96700331	MANUFACTURERS LIFE INS. CO.	2,601,321.52	6.250	November 01, 1999	6.99	21.67
SOCIAL HOUSING POOLS						
99006363	TORONTO-DOMINION BANK	41,828,963.00	9.000	August 01, 1999	9.60	35.00
99006371	BANK OF NOVA SCOTIA	5,794,092.58	8.250	August 01, 1999	9.27	28.17
99006389	MANUFACTURERS LIFE INS. CO.	12,148,012.00	9.125	August 01, 1999	9.73	35.00

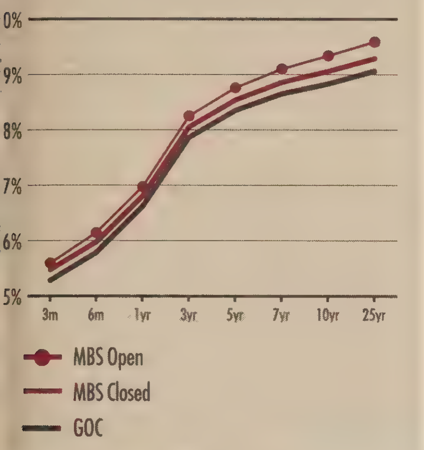
POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: September 1994						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96410774	HOUSEHOLD TRUST COMPANY	3,995,568.15	9.000	September 01, 1999	10.25	24.08
96410808	BANQUE NATIONALE DU CANADA	13,216,805.81	9.000	August 01, 1999	9.62	22.50
96410816	PACIFIC COAST SAVINGS C.U.	6,785,560.66	8.000	September 01, 1997	8.82	22.42
96410840	LONDON LIFE INSURANCE CO.	10,750,031.52	8.250	September 01, 1997	9.05	22.67
96410857	HOUSEHOLD TRUST COMPANY	2,027,860.72	7.750	September 01, 1997	9.57	21.92
96410865	HOUSEHOLD TRUST COMPANY	3,321,075.45	8.375	September 01, 1999	9.95	24.83
96410881	LONDON LIFE INSURANCE CO.	4,301,848.74	6.750	September 01, 1997	7.64	22.75
96410931	SECURITY HOME MORTGAGE INV.COR	2,414,670.37	8.750	September 01, 1999	10.00	24.42
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS, NON PIP)						
96700349	MANUFACTURERS LIFE INS. CO.	6,367,487.65	6.250	August 01, 1999	7.10	11.67
96700356	MANUFACTURERS LIFE INS. CO.	5,781,400.83	6.625	October 01, 1999	7.91	21.00
96700364	MANUFACTURERS LIFE INS. CO.	4,475,395.80	6.500	July 01, 2001	7.49	18.25
96700372	MANUFACTURERS LIFE INS. CO.	4,915,251.85	8.875	November 01, 2004	9.77	20.00
SOCIAL HOUSING POOLS						
99006397	TORONTO-DOMINION BANK	6,114,364.00	8.625	September 01, 1999	9.24	35.00
99006405	CIBC MORTGAGE CORPORATION	26,041,913.00	7.625	September 01, 1997	8.88	35.00
99006413	CIBC MORTGAGE CORPORATION	3,303,280.00	8.250	September 01, 1999	9.09	35.00
99006421	BANK OF NOVA SCOTIA	11,200,000.00	7.250	September 01, 1997	9.03	35.00
99006439	BANK OF NOVA SCOTIA	5,011,533.00	7.875	September 01, 1999	9.45	35.00
99006454	MANUFACTURERS LIFE INS. CO.	6,844,074.00	8.625	September 01, 1999	9.27	35.00

HA MORTGAGE-BACKED SECURITIES

PACE OF NHA MBS ISSUES SLOWS

lortgage lending activity was sluggish over the third quarter of 1994. This prevented lenders from issuing a significant umber of new National Housing Act Mortgage-Backed Securities (NHA MBSs) during the period.

HA Mortgage-Backed Securities eld Analysis – *September 30, 1994**



id Side
rce: Nesbitt Burns CMHC – MAC 1994

HA Mortgage-Backed Securities Yield alysis – *Market at 3:30, November 28, 1994**

GOC description				
upon e	Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
7.75%	09/96	Open	34	8.09%
7.50%	07/97	Open	35	7.85%
5.75%	03/99	Open	36	6.11%
5.75%	03/99	Closed	17	5.92%
7.75%	09/99	Open	36	8.11%
7.75%	09/99	Closed	17	7.92%
6.50%	06/04	Open	40	6.90%

id Side
rce: Telerate; average for MBS traders CMHC – MAC 1994

July-to-September saw 57 new issues of NHA MBS come to market for a total value of $640.5 million. This was down significantly from the previous quarter when 81 pools worth $1,173.4 million were issued. (See detailed data on page 8).

Most of the new issues were for single residential pools, which accounted for $418 million of the total. Meanwhile social housing pools continued to trend down. There are few social housing mortgages available for pooling because, since August 1993, virtually all social housing loans (new and renewals) have been directly funded by CMHC. However, some of the Ontario and B.C. Social Housing loans are still funded through NHA MBSs.

Several factors explain the slow pace of growth in new single-unit pools:

- The slowdown in mortgage lending activity limited the supply of new loans available for pooling. (See details on page 1).
- The supply of new loans was also limited by the relatively high rates that consumers had to pay for five-year mortgages. Instead of taking out five-year loans, borrowers favoured one-year terms or less as they waited for rates to level off. Lenders, however, prefer to create residential MBSs with mortgages of five years or more because these are more cost effective to issue.
- Issuers were reluctant to create new pools because their profit margin is down. The yield spread between five-year mortgage rates and five-year Government of Canada Bonds (GOCs) dropped to 155 basis points in September compared to 195 basis points in July. This is below the spread of 180-200 basis points that has been observed in the past.

Hefty competition among the lenders prevented them from raising mortgage rates as much as financial markets might otherwise dictate.

The low supply of new NHA MBS issues, has kept their prices high. This has resulted in a narrow yield spread between five-year MBSs and five-year GOCs. (See data on page 8.)

MORTGAGE MUTUAL FUNDS IN CANADA: A GROWTH INDUSTRY

BY MARY MCDONOUGH*

Since the early 1990s, the mutual fund market has been one of the fastest growing sectors of the financial services industry. Its total assets hit $131.1 billion in 1994, more than four times the level of 1989. Mortgage mutual funds (MMFs) have skyrocketed as well, jumping from $2.9 billion at the end of 1989 to $14.5 billion in the third quarter of 1994.

The mutual fund boom has been largely driven by consumers eager to receive a better return on investment than that offered by traditional deposit investments such as GICs. With interest rates down in recent years, GIC returns were low, spurring large numbers of investors to flood the mutual fund market.

The tide has turned, however, because of the rise in interest rates through the first half of 1994. The rate hikes have caused investors to back away from income funds such as bond and mortgage funds, whose value goes down as interest rates go up. As a result, redemptions on MMFs have been extremely high recently (Figure 3).

Still, mortgage funds remain a significant sector. Over the past five years, they have accounted for between 11 and 13 per cent of the total mutual fund market (Figure 2).

How mortgage funds work

At least 30 different mortgage funds currently exist, and although they all belong to the same "family" of funds, they vary greatly in the composition of their underlying assets. To some extent, these variations reflect differences in how MMF producers generate their products.

Funds sponsored by the major chartered banks and trust companies tend to be heavily invested in conventional and insured residential mortgages. Many funds restrict the types of residential mortgage loans which can be included in the fund. For example, some funds exclude loans on cottages or other second homes, as well as loans on apartment or other rental properties.

By statute, mortgage funds must be at least 5 per cent invested in cash and other short-term liquid instruments.

A mortgage fund can invest in residential mortgages, but also in commercial mortgages, federal and provincial bonds and mortgage-backed securities (MBSs). The fund's composition – how much it is based on one product or another – will depend, to some extent, on current interest rates.

Funds tend to be based primarily on three- or four-year residential mortgages, but these have been in short supply lately because of interest-rate hikes. Fewer consumers are taking out mortgages, and those still in the market are choosing short-term loans while they wait for the longer-term rates to come down. With fewer residential mortgages available, mortgage funds are investing more in the other products such as bonds and MBSs.

TABLE 1. Ten Largest Mortgage Funds

	Total Net Assets (as at Sept. 30, 1994 $Mils)	Inception Date
Investors Mortgage	$3,465.9	1973
First Canadian Mortgage	2,399.5	1974
CIBC Mortgage Investment	1,598.2	1974
RoyFund Mortgage	1,488.8	1992
Royal Trust Mortgage	1,219.9	1968
Green Line Mortgage	1,114.1	1973
Industrial Mortgage Securities	976.3	1982
Canada Trust Everest Mtg.	819.6	1975
Great-West Life Mortgage	697.5	1966
Scotia Mortgage	691.1	1992
Total	$14,470.9	
Industry Concentration Index *	86.0%	

* Assets of Top Ten Funds as a % of Total Mortgage Funds based on data from Financial Post

Note: Data used to calculate the industry concentration index is based on published data in the Financial Post. Total mortgage fund assets show some variation with data published by the Investment Funds Institute of Canada due to slight differences in reporting and dating methodology.

Source: Financial Post, Mutual Fund Sourcebook — CMHC-MAC 1994

The players

Unlike the rest of the mutual fund industry, MMFs tend to be concentrated in the hands a few major players. The top 10 mortgage funds hold 86 per cent of the assets in this sector. By comparison, the top ten funds for the industry as a whole hold only 18 per cent of total mutual fund assets.

Recently, the chartered banks have greatly increased their share of mortgage fund business at the expense of trust companies as well as other non-deposit-taking sponsors (Table 2). In 1993, funds sponsored by the banks accounted for almost 50 per cent of total mortgage fund assets. Life insurance companies have also seen gains, but with only 8.2 per cent of the market, their share is much smaller.

The investment value of MMFs

The main attraction of mortgage funds is their low risk. A comparative analysis of different mutual fund types shows that MMFs have the lowest risk rating, although they also have the lowest rate of return. The risk rating is a measure of the volatility of the rate of return, on average, over the last three years (Figure 4). The rate of return is based on the compound annual average for three years.

Because of their low-return, low-risk nature, MMFs are like bonds and income funds and unlike other mutual funds. They have much less capital gain potential than do other products such as equity funds. They therefore appeal to long-term investors who need a steady income flow.

How the funds are created

Mortgage funds "purchase" their product from mortgage holders such as banks and trust companies, which continue to administer the mortgage but not to possess the asset. In addition to the paying the actual price of the loans, the buyer must compensate the seller for loss of income that mortgages generate.

This compensation price can be paid in various ways. The seller can receive a servicing fee which would cover administration and other costs. As well, the administration fee that MMFs charge to consumers can be streamed back to the original lender. In some cases lenders also receive a fee for giving up their product.

The lender must then determine whether the sum of all these fees offsets the loss of revenue which the mortgage could earn. In addition, the lender must be compensated for any credit risk. The risk occurs if, for example, the lender is committed to repurchasing the mortgage in the event of default.

Lending institutions are not yet actively using mortgage mutual funds as a source of liquid assets for their mortgage loans. There are two main reasons for this.

First, it is generally cheaper to fund residential mortgages through retail deposits, even though there have been times in recent years when deposits were low. Deposits are particularly cost effective for the bigger financial institutions, which benefit from economies of scale through their large retail branch networks.

Second, the supply of MMFs is limited and this is because growth in the funds has been fuelled by demand rather than supply. MMFs are primarily a retail product and have been offered and marketed on that basis by the larger fund sponsors. The funds can be redeemed, in which case the lender "buys" back mortgage product. Thus, even if it were cost advantageous to do so, little could be done to increase supply if retail investors were not purchasing the funds.

TABLE 2. Market Share of Mortgage Mutual Funds by Type of Fund Sponsor

	1994	1993	1992
Deposit-taking Institutions:			
Chartered Banks	47.8%	49.6%	41.0%
Trust Companies	16.8%	17.0%	21.0%
Life Insurance Companies Other *	8.2%	7.1%	6.7%
Others*	21.2%	26.3%	31.3%

* Other includes I.G. Investment Management (investors Group), Mackenzie Financial, Ontario Teachers Group (1994,1993), United Financial Management (1994,1993).

Source: Financial Post CMHC-MAC 1994

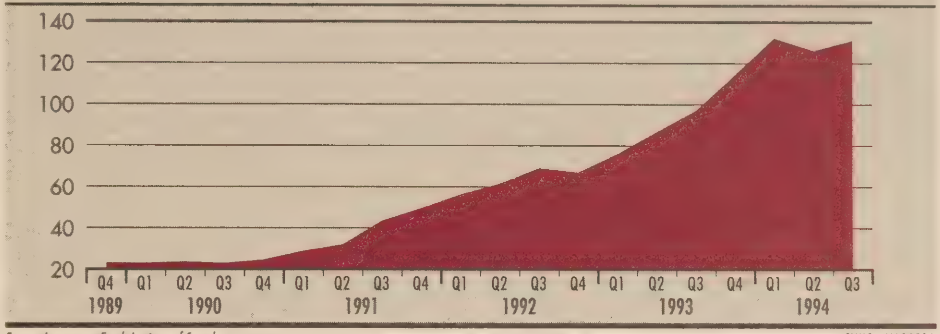
Outlook

MMFs are not expected to grow as quickly as they have in the past three years. Interest rates will likely rise over the next six months and investors will continue to shift back to traditional instruments for income growth.

MMFs are also unlikely to increase liquidity in the Canadian mortgage market in the short term. Although some institutions have relied on their MMFs to ensure liquidity, this has not become an industry-wide trend. Such a development, if it occurs, is still some years away.

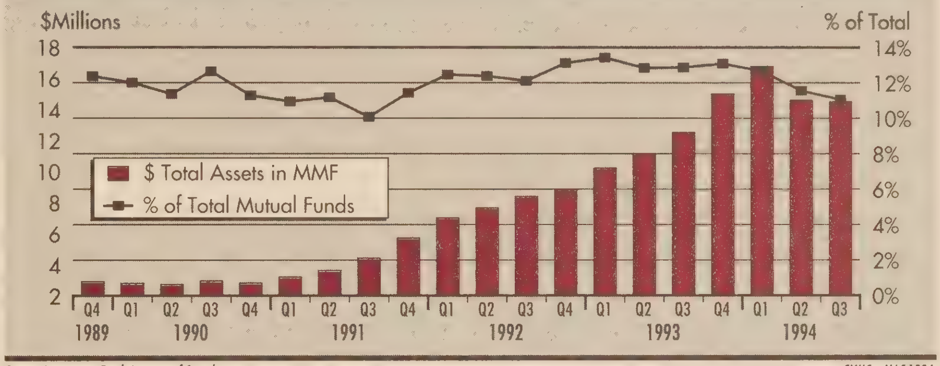
* President, Mary McDonough Associates.
The views expressed or implied in this article are those of the author and not Canada Mortgage and Housing Corporation.

FIGURE 1. Total Mutual Funds
Monthly Statistical Overview – Total Assets as at Month End ($millions)



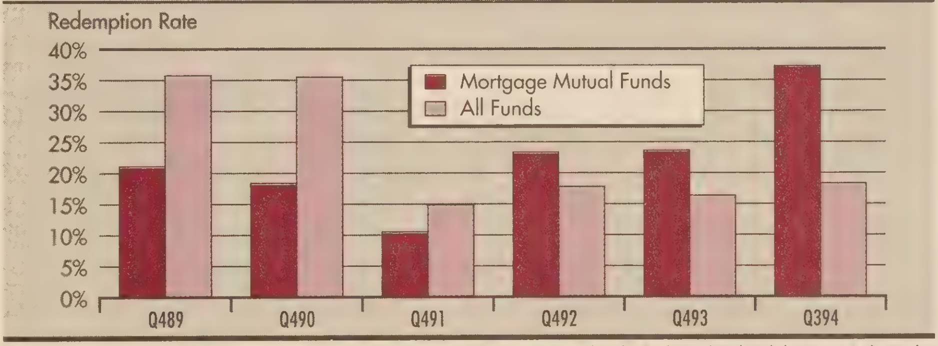
Source: Investment Funds Institute of Canada CMHC – MAC 1994

FIGURE 2. Mortgage Mutual Funds



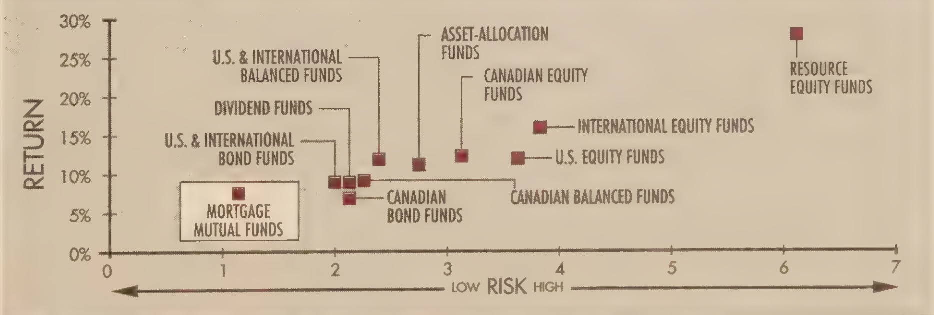
Source: Investment Funds Institute of Canada CMHC – MAC 1994

FIGURE 3. Comparative Trends in Fund Redemption



Redemption Rate = Cumulative Sum of Redemption as at Year-End/Total Assets. MMF = Mortgage Mutual Funds. Total = Total Funds excluding Money Market Funds.
Source: Investment Funds Institute of Canada CMHC – MAC 1994

FIGURE 4. Comparative Risk and Return



Risk = Three-year Standard Deviation of the Rate of Return. Return = 3-year Average Annual Compound Rate of Return.
The Higher the number for risk, the more risky the fund. The higher the number for return, the better the return.
Source: Financial Post Data CMHC – MAC 1994

NHA MORTGAGE-BACKED SECURITIES

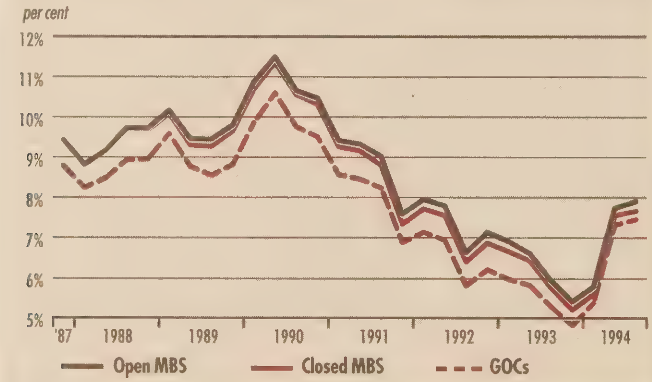
(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

		1992	1993	1994	93Q4	94Q1	94Q2	94Q3
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	11,954.8	16,308.2	16,872.5	16,308.2	16,382.8	16,835.6	16,872.5
	Units	1,102	1,415	1,479	1,415	1,439	1,478	1,479
Residential, single (with PIP)[2]	$million	6,969.6	8,623.4	8,351.3	8,623.4	8,589.2	8,490.2	8,351.3
	Units	646	847	866	847	870	878	866
Residential, single (no PIP)	$million	0.0	0.0	330.3	0.0	0.0	247.2	330.3
	Units	0	0	38	0	0	25	38
Residential, multiple	$million	85.7	553.9	766.1	553.9	591.3	757.9	766.1
	Units	5	14	20	14	16	19	20
Social Housing	$million	4,643.7	6,886.2	7,178.3	6,886.2	6,967.5	7,091.5	7,178.3
	Units	435	532	528	532	530	530	528
Mixed	$million	255.8	244.6	246.6	244.6	234.8	248.8	246.6
	Units	16	22	27	22	23	26	27
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	5,959.4	6,579.8	2,534.4	1,571.3	720.5	1,173.4	640.5
	Units	388	428	211	98	73	81	57
Residential, single (with PIP)	$million	3,744.3	3,410.8	1,191.7	885.6	399.4	460.2	332.1
	Units	243	273	104	73	48	31	25
Residential, single (no PIP)	$million	0.0	0.0	334.3	0.0	0.0	248.4	85.9
	Units	0	0	38	0	0	25	13
Residential, multiple	$million	56.1	472.2	217.8	198.8	39.0	168.5	10.3
	Units	1	10	6	4	2	3	1
Social Housing	$million	2,052.8	2,652.5	745.6	486.9	270.1	266.9	208.6
	Units	136	139	58	21	22	19	17
Mixed	$million	106.3	44.2	45.2	0.0	12.0	29.5	3.7
	Units	8	6	5	0	1	3	1
YIELDS (5-YEAR MATURITY, %)								
MBS Prepayable (with PIP)		8.37	7.21	8.14	6.41	6.78	8.74	8.90
MBS Prepayable (no PIP)		–	–	8.87	–	–	8.84	9.00
MBS Non-prepayable		8.16	7.04	7.97	6.24	6.63	8.59	8.70
MBS MMUF		8.28	7.15	8.06	6.34	6.75	8.64	8.79
MBS Hybrid		8.37	7.22	6.78	6.41	6.78	–	–
Mortgage rates		9.51	8.78	9.35	8.08	7.82	9.92	10.30
GOCs		7.56	6.51	7.75	5.86	6.41	8.35	8.49
SPREADS OVER GOC (5-YEAR MATURITY, %)								
Prepayable (with PIP)		0.82	0.70	0.39	0.54	0.38	0.39	0.41
Prepayable (no PIP)		–	–	0.50	–	–	0.49	0.51
Non-prepayable		0.61	0.53	0.22	0.37	0.22	0.24	0.21
MMUF		0.72	0.63	0.31	0.48	0.34	0.29	0.30
Hybrid		0.82	0.71	0.38	0.54	0.38	–	–
Mortgage Rates		1.96	2.26	1.60	2.22	1.41	1.57	1.81

(1) Cumulative (2) PIP stands for Penalty Interest Payments Not seasonally adjusted data.

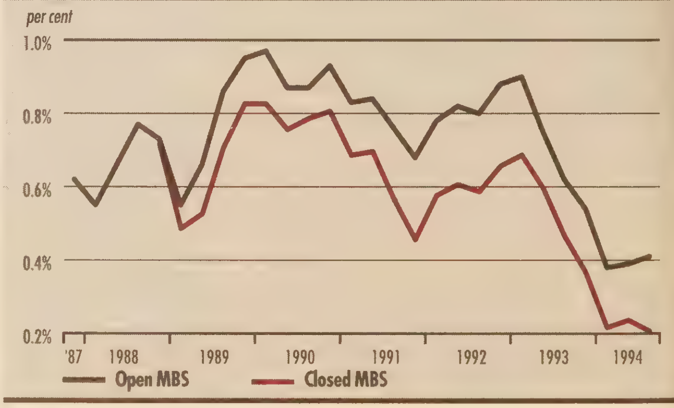
Source: CMHC, Nesbitt Burns *CMHC – MAC 1994*

Selected Interest Rates (5-year maturity)



Source: Bank of Canada, Nesbitt Burns *CMHC – MAC 1994*

Spreads over GOCs (5-year maturity)



Source: Nesbitt Burns *CMHC – MAC 1994*

CMHC MORTGAGE MARKET

TRENDS

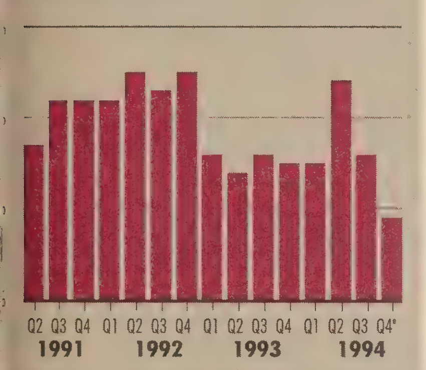
ARKET ANALYSIS CENTRE FIRST QUARTER 1995

MORTGAGE LENDING

MORTGAGE LENDING DRIES UP

ising mortgage rates slowed lending activity throughout 1994, especially during the last three months of the ear. The pace would have been even more sluggish if not for CMHC's loan insurance program which allowed rst-time homebuyers to continue entering the housing market.

esidential Mortgage Credit Growth*
rom previous quarter)



inal e: estimate
ce: Bank of Canada, CMHC
CMHC-MAC 1995

arket Share of Residential Mortgage Credit

	4Q93	3Q94	4Q94e
nks	50.9%	53.3%	53.4%
ısts	17.9%	15.2%	14.9%
isses & Co-op	14.1%	13.9%	13.9%
e	6.9%	6.9%	6.9%
nsion Funds	2.5%	2.3%	2.3%
. & Loan	7.7%	8.4%	8.5%

timate
ce: Bank of Canada, CMHC
CMHC-MAC 1995

The year 1994 began on an upbeat note as the run-up in interest and mortgage rates led to a windfall of pre-approved loans. In the second half of the year business slackened, however, and by the fourth quarter the value of mortgage lending inched up by a mere 0.9 per cent to $330.8 billion. This was the smallest percentage advance in ten years. Moreover, some of the business from the early part of the year turned out to be quite costly to lenders because rates shot up much higher than anticipated.

For 1994 as a whole, mortgage lending increased by only 6.9 per cent, a fourth year of single-digit growth and the smallest increase since the fourth quarter of 1984.

The slowdown in mortgage business was mainly due to the lack of activity in home sales and housing starts. Multiple Listing Service (MLS)[1] transactions were at an annual rate of 277,400 units in the fourth quarter, only marginally higher than in the third quarter and about 15 per cent lower than during the first half of the year. The higher rates also impacted on the new home market, where fourth-quarter housing starts fell nearly 10 per cent to 138,800 units.

Stable house prices were another factor holding back the growth of mortgage credit. The New House Price Index gained only a marginal 0.1 per cent in 1994. The average resale price was somewhat stronger, climbing 3 per cent as Ontario prices finally began rising again after four consecutive years of declines.

Any housing market strength in 1994 came from first-time buyers, as the mortgage approval records suggest. From January to December, financial institutions approved 308,270 NHA loans - those for which the down payment is 25 per cent or less of the value of the home. This was up 7.2 per cent from the same period in 1993. By contrast, approvals of conventional loans fell 18.3 per cent to 494,310 during January to December. The total number of loan approvals — both NHA and conventional — dropped by 10 per cent during this period.

Prospects for 1995 also appear limited because housing markets were hit by another series of rate hikes in December and January, although February saw rates ease somewhat. The five-year mortgage rate was at 10.38 per cent in February compared to 9.9 in early December. February's one-year rate was 9.63 per cent, while in early December it stood at 8 per cent. (See pages 2 and 3 for a discussion by our guest contributors of the mortgage outlook for 1995.)

Fourth-quarter figures show that chartered banks hold 53.4 per cent of Canada's mortgage business, followed by trust companies at 14.9 per cent and credit unions and caisses populaires at 13.9 per cent. Other significant holdings are by finance and loan companies (8.5 per cent), life insurance companies (6.9 per cent) and pension funds (2.4 per cent).

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

OUTLOOK FOR HOUSING AND MORTGAGE MARKETS IN 1995

Each year, CMHC invites some lenders to express their views about what they think the mortgage market will be for the coming year. While some are more optimistic than others, there still a consensus that the recent increase in mortgage rates, if sustained, will hurt the housing market in 1995.

Thomas R. Alton
President,
Bank of Montreal Mortgage Corporation

Rising interest rates and sluggish housing demand will create a buyers' market in the mortgage sector during the first half of 1995. The outlook is more promising for the second half — lower interest rates and stronger housing markets.

For the year as a whole, the mortgage market is forecast to grow about 5 per cent. There will be stiff competition among lenders in an oversupplied market with weak demand. Consumers will opt for short-term mortgages including those at a variable rate. The renovation market will remain strong throughout the year.

In early 1995, interest rates were again on the rise, giving Canada the second highest rates (in real terms) of any of the G7 countries. This, despite the fact that Canada's economy is fundamentally sound. The reason for this is the influence of the United States. The U.S. Federal Reserve Board, the equivalent of our Bank of Canada, has been pushing up short-term interest rates in order to slow down the economy and avoid a new round of inflation. The U.S. economy is over-heated. It is operating well beyond its long-term potential, the jobless rate is only 5.7 per cent (considered to be full employment) and job growth continues to be very strong. Accordingly, the Federal Reserve will continue its aggressive interventions during the early months of 1995. This will force the Bank of Canada to follow suit.

In Canada we are strongly affected by the tighter U.S. monetary policy. Even though we have no desire to push up interest rates, our dependence on foreign investors to help finance our annual deficits gives us no choice. We have to offer rates in line with those in the U.S to keep investors interested in Canadian assets.

A year ago, in January 1994, the one-year mortgage rate stood at a historic low of 5 3/4 per cent. It had jumped to between 9.50 and 10 per cent by January and early February 1995.

The over-4-percentage-point rate hike has cost the average homebuyer an extra $400 in monthly payments or roughly 10 per cent of after-tax income. This is the main reason why the Canadian housing market has not been able to share the benefits of an impressive economic expansion.

We can expect the longer term interest rates to ease once our annual budget season and provincial elections are over and the U.S. economy slows down. A more buoyant housing market will emerge with the lowering of long-term rates and as employment and consumer confidence improves.

Elisabetta Bigsby
Vice-President,
Residential Mortgages,
Royal Bank of Canada

Last year, mortgage lending increased strongly, despite the fact that the performance in the housing sector was not very robust. This article takes a look at what to expect in 1995 for the housing sector and mortgage growth.

Typically, house construction is one of the strongest sectors coming out of recessions. But it has not been the case this time around because of rising interest rates, large surpluses of multiple housing units and still uneven employment prospects for first-time house buyers.

As Canada's exports — and business investment — led economic recovery accelerated in 1994, it seemed that the household sector would not be far behind. After a weak first quarter, housing starts picked up sharply in the second quarter, as income gains, improved employment prospects, generally low interest rates and a level of housing affordability not seen in well over a decade suggested cause for optimism. Resale activity also picked up. But then this recovery stalled. Housing starts fell by 10 per cent in each of the last two quarters of 1994 while real spending on residential construction also weakened.

...we expect mortgages to grow strongly in the 7 to 8 per cent range.

Elisabetta Bigsby, Royal Bank of Canada

This year housing markets may remain flat with only modest increases in new house building and in real residential construction expenditures. Renovation activity well show stronger momentum.

In the recent past, despite the ups and downs in the housing market, growth in mortgages has been relatively stable. From 1990 to 1994, growth in nominal residential construction expenditures has ranged from a low of -10.4 per cent to a high of 9.8 per cent; mortgage growth, in contrast, has ranged from 5.6 per cent to a high of 12.5 per cent. Much of this is because household demand for mortgages is not just for new housing. Other than for resales and renovations, mortgages are increasingly being used by households to finance other purchases and expenditures.

What does this mean for the mortgage outlook in 1995? With continuing improvements in incomes and employment expected during 1995, and growing financing requirements for new housing, renovations, resales and other purchases, we

expect mortgages to grow strongly in the 7 to 8 per cent range. In this environment of low inflation, this is quite a robust growth.

The key uncertainty remains the outlook for interest rates. With the federal budget behind us, interest rate volatility should decrease. The risk is that stubborn U.S. inflation may call for further rate hikes which our markets may well have to match.

Peter Drake
Vice President and Deputy Chief Economist,
Department of Economic Research,
Toronto Dominion Bank

Housing construction and resale activity will be affected by two divergent forces in 1995. The good news is that economic trends will be positive for housing. Both employment and disposable incomes will rise substantially, and this would normally boost housing demand. The bad news is that financial markets will be unsettled, at least for the first half of the year. Another interest rate increase in the United States, nervousness among investors in anticipation of the remaining 1995 provincial government budgets and uncertainty about the outcome of the Quebec referendum will translate into higher and more volatile interest rates in Canada.

Higher interest rates make housing less affordable. Over the first 10 months of 1994, the income required to purchase an average-priced house in Canada rose by close to 25 per cent. There was a very modest increase in house prices during that time, but the majority of the deterioration in affordability was caused by mortgage interest rates rising from their very low levels of January 1994. With more rate hikes possible in the first half of 1995, housing affordability could deteriorate further in the near-term.

By the fourth quarter of 1995, interest rates are forecast to decline. Along with continued solid employment growth, this should encourage a pickup in sales in both new and resale markets toward year-end. Even with a rebound late in the year, housing starts are forecast to be no higher this year than the 155,000 units recorded in 1993. But more favourable financial market conditions should result in substantially improved housing activity in 1996, and an increase in new housing starts to 170,000 units next year.

Gilles Soucy
Chief Economist
La Confédération des caisses populaires et d'économie Desjardins du Québec

Canada had a prosperous year in 1994 with a rise in Gross Domestic Product (GDP) of 4.5 per cent — the best economic performance of the major industrialized countries. When mortgage rates dropped to a 30-year low early in the year, forecasters predicted that the residential construction sector would heat up, reversing the slowdown of 1993. But this didn't happen. Instead housing starts did not rise above 154,000 units, slightly less than the previous year's level.

The year began well enough. In the first half of 1994, both housing starts and resale figures were above those for the same period in 1993. Moreover, the job market was growing fast, promoting renewed consumer confidence. This promising start was nipped in the bud, however, when the United States began to tighten up its monetary policy, causing steep interest-rate hikes in Canada. These rate hikes coincided with great uncertainty over Canada's large public debt and the resumption of the perennial constitutional debate as Quebeckers prepared for provincial elections in the spring of 1994.

As a result of these factors, housing starts fell substantially in the second half of the year. The demand for mortgage credit also declined, from an annual rate of 8.4 per cent in the January-June period to 5 per cent during June to December.

Despite a low Canadian dollar and high interest rate rates, the economic outlook for 1995 is promising. Even if growth slows down somewhat, it should still be in the range of 3.7 per cent because of the momentum built up last year and the continued recovery of the American economy. Moreover, sustained job creation along with rising consumer confidence will boost the housing construction and renovation markets.

Nevertheless, a major upturn for new construction is not in the cards for 1995. Housing starts are forecast to drop slightly from 1994 levels to 150,000 units. Continued high mortgage rates are to blame. One-year rates, which were at 5.75 per cent in February 1994, are now 9.25 per cent and are expected to peak at 9.75 per cent by mid-year.

Canada will continue to be affected by events in the U.S. By mid-year, the Americans will likely introduce one or two interest-rate hikes to hold down inflation and rein in an economy that is going full blast. Canada's high public and exterior debt makes it extremely vulnerable to such measures. In addition, the risk premium on Canadian government bonds and the weakness of our dollar will maintain a wide spread between Canadian and U.S. interest rates.

In the second half of the year, Canada's mortgage rates should dip slightly as a result of several moderating factors. The U.S. economy will begin to cool off and U.S. rates edge down, the suspense of federal and provincial budgets would be dissipated and the Quebec referendum would be behind us. One-year mortgage rates should therefore fall from the mid-year peak of 9.75 per cent to 9.00 in the final months of the year. This is still a very high rate in light of low inflation and the fact that the personal savings rate is at its lowest level in 30 years. Moreover, the belt-tightening measures in the upcoming federal and provincial budgets will undoubtedly take both a financial and moral toll on Canadian consumers.

All these factors will probably mean no upturn in housing starts this year. The same can be said for growth of mortgage credit. From 1993 to 1994, mortgage credit rose slightly, from 5.8 per cent to 6.7 per cent. Roughly the same rate of growth — about 6 per cent — is forecast for 1995.

INDICATORS OF MORTGAGE LENDING ACTIVITY

Mortgage Credit Outstanding [1] (in millions of dollars)

	1992	1993	1994	94Q1	94Q2	94Q3	94Q4e
TOTAL	281,913	303,190	323,968	314,849	322,537	327,701	330,783
% change	9.2	7.5	6.9	1.5	2.4	1.6	0.9
Banks	123,583	147,181	170,388	159,864	170,344	174,560	176,783
Trust Co.	74,541	63,329	51,138	55,180	50,272	49,845	49,253
Caisses & CO-OP	38,891	42,531	45,187	44,405	45,004	45,465	45,874
Life Ins. Co.	19,844	21,215	22,279	21,701	21,971	22,523	22,921
Pension Funds	7,863	7,565	7,658	7,571	7,550	7,697	7,814
Fin. & Loan	17,191	21,369	27,318	26,127	27,396	27,612	28,138

(1) Seasonally adjusted data (e): Estimate

Source: Bank of Canada, CMHC *CMHC-MAC 1995*

NHA and Conventional Loans Approved [1]

		1992	1993	1994	94Q1	94Q2	94Q3	94Q4
TOTAL	$millions	82,935	71,665	67,364	18,907	21,588	14,019	12,850
	Units	1,047,914	893,016	802,520	218,425	252,210	172,015	159,870
NHA	$millions	23,021	25,220	26,103	8,010	8,295	5,021	4,777
	Units	254,898	287,618	308,210	87,020	98,048	63,146	59,996
Conventional	$millions	59,914	46,445	41,261	10,897	13,293	8,998	8,073
	Units	793,016	605,398	494,310	131,405	154,162	108,869	99,874
By Type of Lender								
Banks	$millions	50,447	42,622	40,443	11,071	12,999	8,568	7,805
	Units	589,404	498,332	461,639	124,376	146,555	99,909	90,799
Trust Co.	$millions	14,555	14,553	12,497	3,643	3,733	2,633	2,488
	Units	196,991	188,135	147,407	40,394	44,630	31,905	30,478
Life Ins. Co.	$millions	5,310	4,624	4,139	1,454	1,127	765	793
	Units	90,751	78,175	64,056	21,585	17,343	11,156	13,972
Others	$millions	12,623	9,866	10,285	2,739	3,729	2,053	1,764
	Units	170,768	128,374	129,418	32,070	43,682	29,045	24,621

(1) Not Seasonally Adjusted

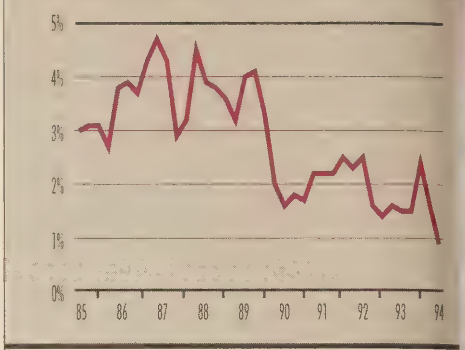
Source: CMHC *CMHC-MAC 1995*

Mortgage Rates (%) (Average of period)

	1992	1993	1994	93Q4	94Q1	94Q2	94Q3	94Q4
1-Year Mortgage Rage	7.87	6.91	7.83	6.33	6.17	8.28	8.38	8.50
3-Year Mortgage Rate	8.95	8.10	8.99	7.35	7.08	9.29	9.84	9.75
5-Year Mortgage Rate	9.51	8.78	9.53	8.08	7.82	9.92	10.30	10.10

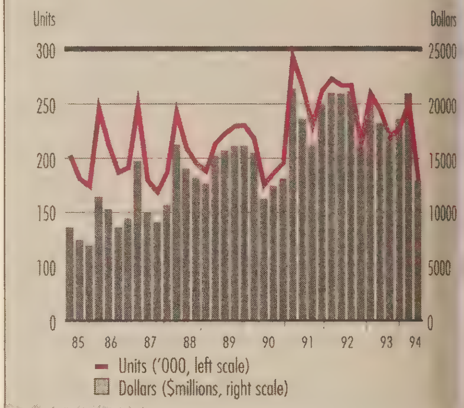
Source: Bank of Canada, CMHC *CMHC-MAC 1995*

Residential Mortage Credit Growth *(in per cent)*



Source: Bank of Canada, CMHC *CMHC-MAC 1995*

NHA and Conventional Approvals



Source: CMHC *CMHC-MAC 1995*

Mortgage Rates *(per cent)*

Source: Bank of Canada *CMHC-MAC 1995*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Marc Pellerin, Capital Markets Economist, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: 613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 495-2003.

Mortgage Market Trends is a quarterly publication. To order, call 1-800-668-CMHC, fax 1-800-463-3853 or mail your order form to:

CMHC,
P.O., Box 3077,
Markham, Ontario L3R 6G4

Annual subscription (4 issues) $44. + GST — Catalogue No. CMHC/MMTE.
Single issue $11. +GST — Catalogue No. CMHC/MMTE-1995-01.

Cette publication est aussi disponible en français sous le titre SCHL — Tendances du marché hypothécaire — N° de catalogue : CMHC/MMTF.

ISSN 1188-42 15
Printed in Canada

CMHC offers a wide range of housing-related information. For details, contact your local CMHC office.

CMHC subscribes to Canada's Green Plan. Quantities of our publication are limited to market demand; updates are produced only when required; and recycled or recyclable stock and non-toxic inks are used whenever possible.

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: December 1994						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96411087	HOUSEHOLD TRUST COMPANY	4,024,872.39	8.750	December 01, 1999	10.08	22.08
96411111	SECURITY HOME MORTGAGE CORP.	4,116,790.62	8.750	December 01, 1999	9.88	24.75
96411137	CIBC MORTGAGE CORPORATION	2,167,322.46	8.500	September 01, 1997	9.70	21.83
96411152	MUTUAL LIFE ASSUR. CO. OF CDA.	59,914,920.21	6.500	October 01, 1999	8.05	21.50
96411160	BANQUE NATIONALE DU CANADA	9,483,557.76	8.000	December 01, 1999	9.61	23.17
96411178	CIBC MORTGAGE CORPORATION	5,170,634.95	8.875	October 01, 1999	9.72	21.50
96411186	HOUSEHOLD TRUST COMPANY	2,985,678.78	9.000	December 01, 1999	9.90	24.92
96411210	CIBC MORTGAGE CORPORATION	12,563,071.12	7.625	January 01, 1998	8.71	21.75
96411228	VANCOUVER CITY SAVINGS C.U.	10,132,799.74	8.000	October 01, 1997	9.46	23.17
96411236	VANCOUVER CITY SAVINGS C.U.	8,829,622.13	7.375	December 01, 1999	9.05	24.33
96411251	HOUSEHOLD TRUST COMPANY	2,032,994.20	8.375	December 01, 1997	9.82	23.92
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600234	PEOPLES TRUST COMPANY	51,188,882.05	8.625	December 01, 1999	9.67	30.25
96600259	SECURITY HOME MORTGAGE CORP.	5,325,965.08	8.750	December 01, 1999	9.87	25.42
96600267	MANUFACTURERS LIFE INS. CO.	41,277,005.62	7.750	November 01, 1999	9.01	28.75
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96700513	MANUFACTURERS LIFE INS. CO.	8,487,822.31	8.500	February 01, 2000	9.82	22.67
96700521	MANUFACTURERS LIFE INS. CO.	4,120,158.97	9.375	December 01, 2001	10.29	20.92
SOCIAL HOUSING POOLS						
99006561	TORONTO-DOMINION BANK	6,805,952.00	9.125	December 01, 1999	9.73	35.00
99006579	TORONTO-DOMINION BANK	26,818,126.00	9.125	December 01, 1999	9.71	35.00
99006587	TORONTO-DOMINION BANK	16,140,040.00	8.500	December 01, 1997	9.08	31.67
99006595	CIBC MORTGAGE CORPORATION	14,649,520.00	9.000	December 01, 1999	9.79	35.00
99006603	CIBC MORTGAGE CORPORATION	28,354,481.00	8.250	December 01, 1997	9.46	35.00
99006611	BANK OF NOVA SCOTIA	12,400,000.00	7.000	December 01, 1997	9.43	35.00
99006629	BANK OF NOVA SCOTIA	9,739,536.00	8.000	December 01, 1999	9.65	35.00
99006637	BANK OF MONTREAL	2,031,019.12	8.250	June 01, 1998	9.57	28.25
99006645	BANK OF MONTREAL	3,150,371.11	7.750	September 01, 1998	8.26	29.67
99006652	BANK OF MONTREAL	21,141,027.77	6.750	July 01, 1999	7.52	29.50
99006660	BANK OF MONTREAL	10,703,409.71	7.125	November 01, 1999	7.85	29.92
99006678	BANK OF MONTREAL	9,846,919.91	8.000	December 01, 2000	8.68	30.92
99006686	BANK OF MONTREAL	11,581,191.86	8.250	April 01, 2001	8.86	31.33
99006694	BANK OF MONTREAL	7,610,471.23	8.750	October 01, 2001	9.25	31.83
99006702	MANUFACTURERS LIFE INS. CO.	20,000,000.00	8.750	December 01, 1999	9.77	35.00

NHA Mortgage-Backed Securities Fourth Quarter Issues
October 1994 to December 1994

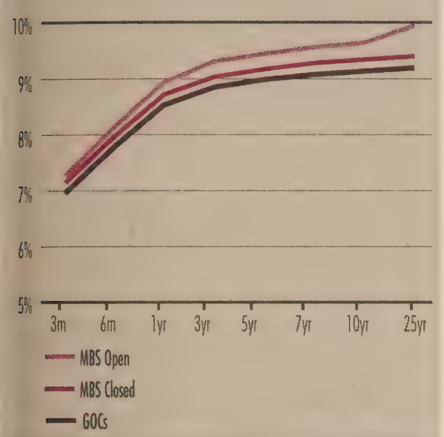
POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: October 1994						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96410873	HOUSEHOLD TRUST COMPANY	11,997,074.36	8.500	October 01, 1999	9.80	24.75
96410899	M.R.S TRUST COMPANY	3,588,088.98	8.000	October 01, 1997	9.44	22.92
96410907	HOUSEHOLD TRUST COMPANY	2,037,016.06	7.750	October 01, 1997	9.48	23.75
96410915	HOUSEHOLD TRUST COMPANY	3,031,832.36	8.500	October 01, 1999	10.28	24.17
96410923	HOUSEHOLD TRUST COMPANY	2,067,537.14	8.000	October 01, 1997	10.04	23.83
96410949	BANQUE NATIONALE DU CANADA	15,603,511.23	8.375	October 01, 1999	9.58	23.33
96410956	BANQUE NATIONALE DU CANADA	8,313,275.13	8.375	October 01, 1999	9.69	10.42
96410964	BANQUE NATIONALE DU CANADA	5,215,762.35	9.000	September 01, 2001	9.94	23.33
96410972	ROYAL BANK OF CANADA	8,058,714.05	9.000	September 01, 2019	9.81	20.25
96410980	ROYAL BANK OF CANADA	32,877,655.75	7.875	September 01, 2004	9.35	19.17
96410998	ROYAL BANK OF CANADA	32,033,238.94	7.750	September 01, 2004	9.42	11.08
96411004	MUTUAL TRUST COMPANY	22,552,577.59	8.750	October 01, 1999	9.65	21.50
96411020	M.R.S TRUST COMPANY	4,014,640.27	8.625	October 01, 1999	9.81	22.58
96411038	FIRST HERITAGE SAVINGS C.U.	2,563,227.18	8.125	October 01, 1999	9.27	21.42
96411046	SECURITY HOME MORTGAGE CORP.	4,717,123.38	9.000	October 01, 1999	10.00	24.83
96411053	VANCOUVER CITY SAVINGS C.U.	17,211,118.96	7.750	August 01, 1997	8.88	23.25
96411061	VANCOUVER CITY SAVINGS C.U.	31,412,994.93	7.000	August 01, 2001	7.86	23.33
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96700380	MANUFACTURERS LIFE INS. CO.	8,575,368.07	7.750	September 01, 2001	8.93	19.83
96700398	CANADA TRUSTCO MORTGAGE CO.	124,459,700.87	8.250	May 01, 1998	9.13	18.67
96700406	CANADA TRUSTCO MORTGAGE CO.	22,665,297.95	8.750	October 01, 2001	9.66	20.33
96700414	CANADA TRUSTCO MORTGAGE CO.	44,010,663.86	8.250	October 01, 1999	9.31	20.42
96700422	MANUFACTURERS LIFE INS. CO.	5,103,209.19	8.625	November 01, 2001	9.45	21.58
96700430	MANUFACTURERS LIFE INS. CO.	5,561,290.57	8.000	October 01, 1999	9.07	11.67
96700448	MANUFACTURERS LIFE INS. CO.	2,450,388.17	9.375	December 01, 2004	10.50	21.25
SOCIAL HOUSING POOLS						
99006447	LONDON LIFE INSURANCE CO.	51,760,827.28	7.875	October 01, 1997	8.38	31.92
99006462	TORONTO-DOMINION BANK	32,933,836.06	8.250	October 01, 1999	9.38	35.00
99006470	TORONTO-DOMINION BANK	24,560,851.00	6.750	October 01, 1999	9.36	35.00
99006488	CIBC MORTGAGE CORPORATION	55,424,449.00	7.625	October 01, 1997	8.81	35.00
99006496	BANK OF NOVA SCOTIA	19,708,001.85	8.000	October 01, 1999	9.34	35.00
99006504	BANK OF NOVA SCOTIA	4,405,880.00	7.500	October 01, 1997	8.77	35.00
MONTH OF ISSUE: November 1994						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96411012	HOUSEHOLD TRUST COMPANY	10,998,503.52	8.750	November 01, 1999	10.05	24.83
96411079	SUN LIFE TRUST COMPANY	3,239,136.37	9.125	October 01, 1999	10.02	22.33
96411095	HOUSEHOLD TRUST COMPANY	2,116,031.54	8.375	November 01, 1997	9.64	23.67
96411103	SECURITY HOME MORTGAGE CORP.	4,018,266.08	8.750	November 01, 1999	9.88	24.58
96411129	HOUSEHOLD TRUST COMPANY	2,021,660.68	8.875	November 01, 1999	9.96	24.83
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96500285	SECURITY HOME MORTGAGE CORP.	3,808,020.36	8.375	November 01, 1997	9.59	25.83
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600242	SECURITY HOME MORTGAGE CORP.	2,457,847.17	8.750	November 01, 1999	9.78	22.25
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96700455	MANUFACTURERS LIFE INS. CO.	2,412,332.28	9.125	January 01, 2000	9.90	12.58
96700463	MANUFACTURERS LIFE INS. CO.	4,193,396.93	7.500	September 01, 1999	8.65	20.75
96700471	MANUFACTURERS LIFE INS. CO.	7,260,236.79	7.500	January 01, 2000	8.88	21.33
96700489	MANUFACTURERS LIFE INS. CO.	18,824,179.78	8.500	November 01, 1999	9.57	21.25
96700497	MANUFACTURERS LIFE INS. CO.	23,845,727.01	8.500	January 01, 2000	9.80	21.25
96700505	MANUFACTURERS LIFE INS. CO.	4,037,792.12	9.125	December 01, 1999	10.26	21.17
SOCIAL HOUSING POOLS						
99006512	METROPOLITAN TRUST COMPANY	6,873,275.65	8.125	November 01, 1999	8.99	30.00
99006520	TORONTO-DOMINION BANK	2,834,183.00	9.000	November 01, 1999	9.57	35.00
99006538	TORONTO-DOMINION BANK	3,731,674.00	9.000	November 01, 1999	9.58	35.00
99006546	CIBC MORTGAGE CORPORATION	22,134,923.00	8.625	November 01, 1999	9.52	35.00
99006553	MANUFACTURERS LIFE INS. CO.	18,678,335.00	8.500	November 01, 1999	9.48	35.00

NHA MORTGAGE-BACKED SECURITIES

PACE OF NEW NHA MBS ISSUES ACCELERATES

The year 1994 ended on an upturn with NHA Mortgage-Backed Secutities (MBSs) rising sharply during the fourth quarter. The demand for NHA MBSs remained strong throughout 1994. But a shortage of mortgages available for pooling limited new issues.

NHA Mortgage - Backed Securities Yield Analysis - *December 31, 1995***



Source: Nesbitt Burns *CMHC-MAC 1995*

NHA Mortgage - Backed Securities Yield Analysis - *Market at 11:00, February 15, 1995***

COG Description Coupon Date	Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
7.75%	09/96	Open	35	8.55%
7.50%	07/97	Open	35	8.78%
8.00%	03/97	Open	36	8.65%
8.00%	03/97	Closed	20	8.49%
7.75%	09/99	Open	35	8.97%
7.75%	09/99	Closed	18	8.80%
9.00%	12/04	Open	38	9.21%

*Bid Side

Source: Telerate; average of MBS traders *CMHC-MAC 1995*

New issues of NHA MBSs jumped significantly in the fourth quarter of 1994 to 79 issues compared to 57 in the previous three months. The total value of fourth-quarter issues was $1,185.2 million, while the third-quarter total was $640.5 million.

The rebound in MBS activity was the result of a sharp rise in both single residential and social housing pools. The fourth-quarter bonanza for social housing was largely due to the many Ontario unilateral social housing loans up for renewals. This is not likely to occur again in the near future.

The upswing of new issues of single residential pools has occurred because demand for them remains strong. One reason is that investors appreciate the good returns they receive with NHA MBSs. These securities have, on average, provided a better yield compared to equivalent Government of Canada bonds (GOCs) over the last five years. (See the table below.) For example, the NHA MBS Composite Index calculated by Wood Gundy posted a return of -0.73 per cent in 1994, while the comparable GOC index lost 1.29 per cent. In addition, both open and closed NHA MBSs have consistently outperformed GOCs since 1990.

A second reason for high MBS demand is the keen interest in MBS derivatives. Investment dealers use NHA MBSs as collateral in Collateralized Mortgage Obligations (CMOs) because it is the cheapest way to provide credit enhancement. CMOs are very popular among institutional investors.

New issues of single residential pools would have been even greater in the September-December period if not for three dampening factors:

- The increase in mortgage rates during the fourth quarter limited the supply of loans eligible for pooling. (See page 1 article for details.)
- The shortage of loans in this period — as for most of 1994 — was exacerbated by borrowers' preference for short-term mortgages. An informal CMHC survey indicates that 40 to 60 per cent of mortgagors continue to favour terms of one year or less even though mortgage rates are 300-500 basis points higher than they were a year ago. Lenders prefer creating residential single pools with terms of five-year or more to get better profitability.

TOTAL RETURN (in per cent)

	Wood Gundy Index Total	Closed	Open	Comparable Government of Canada Index
1988	8.93	—	8.97	—
1989	11.76	11.54	11.88	11.68
1990	10.54	10.69	10.47	10.17
1991	19.53	19.69	19.45	18.03
1992	8.37	8.90	8.01	8.20
1993	14.73	15.23	14.34	12.93
1994	-0.73	-1.25	-0.29	-1.29

Source: Wood Gundy *CMHC-MAC 1995*

- The profitability of issuing MBSs was also lower. The spread between five-year mortgage rates and the yield on five-year GOCs narrowed to only 132 basis points during the fourth quarter of 1994, compared with an historic average of 180-200 basis points.

The combination of a lack of supply along with strong demand for NHA MBSs kept their price high. This has resulted in a narrow yield spread between five-year NHA MBSs and comparable GOCs. (See details on page 8.)

SURVEY REVEALS CONSUMER PREFERENCES

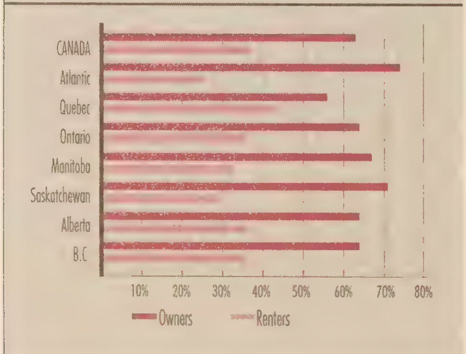
A new CMHC-sponsored survey promises to be a very useful tool for builders and lenders keen to stay abreast of market trends. The survey — Consumer Housing Preferences in the 1990s — is an in-depth look at what Canadians want in housing, how they prefer to borrow and what they intend to do in the future. Three major demographic groups are featured: baby boomers, empty nesters and generation X. Key findings are that 46 per cent of Canadians intend to move over the next five years and that three out of four homebuyers will need a mortgage.

Canadians' current housing status

The survey found that 63 per cent of Canadian households currently own their homes, while 37 per cent rent. The Atlantic region has the highest homeownership rate at 74 per cent, while Quebec has the lowest — 56 per cent. (See Graph 1.) As might be expected, a large proportion (67 per cent) of 21-to-29 year-olds, known as Generation X, are renters. Another finding shows that 42 per cent of householders between the ages of 25 and 34 do not own a home. These findings indicate there is a large untapped market of potential homebuyers, which is good news for builders and lenders.

A majority of homeowners — 52 per cent — still have a mortgage on their homes. In the Atlantic region, how-ever, only 40 per cent of owners have mortgages (Graph 2), the lowest per-centage in Canada. This region also has the lowest house prices. British Columbia, where house prices are highest, has the second lowest rate of mortgage holders (48 per cent). This is probably because many wealthy retirees live in B.C. Alberta has the highest portion of homeowners carrying mortgages (57 per cent).

Graph 1 - A Majority of Canadians are homeowners

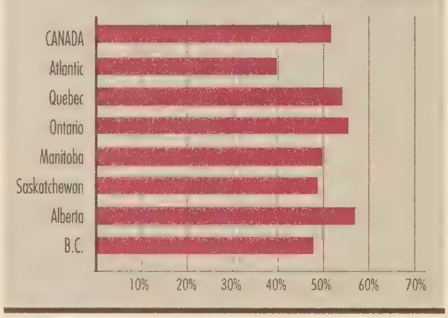


Source: CMHC — CMHC-MAC 1995

Homeownership still desirable

Almost 80 per cent of Canadians say that young people should stop renting and purchase a home. About the same percentage of people believe that while the housing market will have its up and downs, housing will always be a good investment. In addition to the investment value, homeownership is seen to add to quality of life. As the CMHC survey showed, Canadians are spending more time in their homes now than they used to.

Graph 2 - Less than 60 per cent of Households have a Mortgage on their Principal Residence



Source: CMHC — CMHC-MAC 1995

Homebuying intentions

Consumers appear eager to buy homes, but high prices and shaky job security are causing them to postpone purchases.

According to the survey, 53 per cent of renters and 42 per cent of homeowners intend to buy or build a home over the next five years (Graph 3). But only 11 per cent of respond-ents intend to buy or build within the next 12 months (Graph 4). Most plan to do so within two to five years.

The main reasons cited by renters for delaying home purchase plans were: high price of homes (11 per cent), insufficient down-payment (10 per cent), and concerns about job security (10 per cent). Among homeowners, 21 per cent said they were not ready to move, while 8 per cent said their moving plans were on hold because of job concerns. A large proportion (42 per cent) of both renters and owners were unsure about their plans. This suggests that if economic conditions improve, many people might jump into the home market sooner.

Mortgage needs

About three out of four Canadians who plan to buy a homes within the next five years will need to borrow to cover the cost. Of those who are renters, 86 per cent will need a mortgage. By comparison, 64 per cent of owners will need loans when they make their next move (Graph 5). More renters require financing because they tend to be young people who have not built up equity, as many homeowners have.

Spending limits

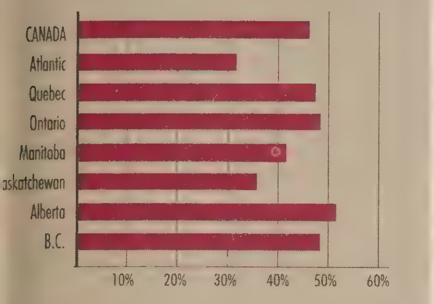
The maximum home price and downpayment consumers are ready to pay varies considerably across the

TABLE 1 Maximum Average Price and Average Downpayment

	Average Maximum Price	Average Down-payment	Downpayment in % of Average Maximum Price
CANADA	$141,000	$38,500	27.3%
Atlantic	$102,000	$23,500	23.0%
Quebec	$107,000	$25,600	23.9%
Ontario	$160,000	$44,300	27.7%
Manitoba	$109,000	$25,800	23.7%
Saskatchewan	$104,000	$40,800	39.2%
Alberta	$131,000	$32,100	24.5%
B.C.	$195,000	$58,500	30.0%

Source: CMHC — CMHC-MAC 199.

raph 3 - Nearly Half of Households Intend to Move within the Next Five Years



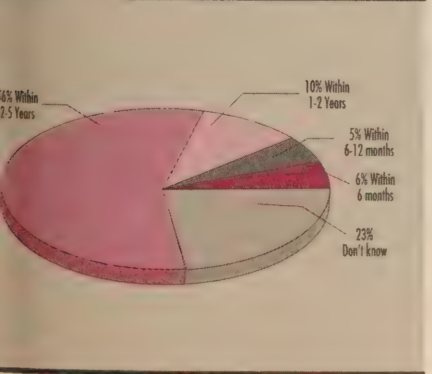
urce: CMHC CMHC-MAC 1995

ountry. For Canada as a whole, the average maximum is $141,000 ($137,000 for renters and $145,000 for owners) as indicated in Table 1. In British Columbia, people are willing o pay the most, an average naximum of $195,000. They also are villing to put the most down, 58,500 on average or 30 per cent of he purchase price.

Mortgage preferences

When consumers are considering a nortgage, they tend to look to the banks first. As Table 2 shows, 59 per cent of homebuyers prefer to borrow rom banks, a percentage similar to he actual share of mortgage business hat banks currently hold. Banks have, in fact, been gaining market hare since deregulation began in the inancial community in the early 970s. Quebeckers buck the trend omewhat, with only 50 per cent of he province's homeowners mentioning banks as a preferred source of mortgages. Forty-one per cent of them favour the caisses populaires.

raph 4 - When do People Plan to Buy



urce: CMHC CMHC-MAC 1995

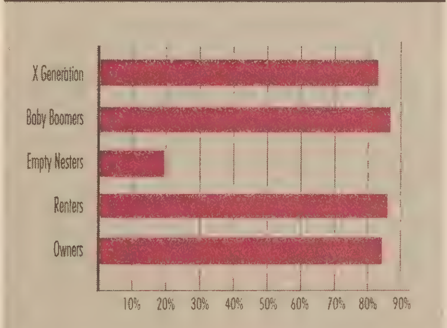
TABLE 2 First Choice for Future Mortgages (%)

	Renters	Owners	Total
Bank	61	56	59
Credit Union/ Caisse Populaire	18	20	19
Trust Company	11	12	12
Private Sources	5	2	4
Mortgage Broker	–	2	1
Insurance Company	1	1	1
Other	2	4	3
Don't know	2	2	2

Source: CMHC CMHC-MAC 1995

When asked about the most desirable features for a mortgage, other than a good rate, 73 per cent of consumers cited the ability to make extra payments without penalty. They were also keen on fast pay-down and weekly and bi-weekly payment options. Indeed, 64 per cent of homeowners intend to pay off their mortgages faster than the time specified in their loan agreements. Of this group, 54 per cent plan to meet their goal with larger paydowns on anniversary dates. Only 29 per cent said they would renegotiate their mortgage for more frequent payments (weekly or bi-weekly).

Graph 5 - Homebuyers Still Need a Mortgage



Source: CMHC CMHC-MAC 1995

Renovations offer great lending potential

Within the next 12 months, 47 per cent of owners intend to renovate their homes and to spend an average of $8,900 on their projects. Generation X owners are the most renovation-minded with 62 per cent of them citing such plans. Next come the baby boomers, 52 per cent of whom plan to spend on renovations. By contrast, only 31 per cent of empty nesters have renovations in mind for the coming year.

More details available

The CMHC survey offers many more insights on consumer preferences, including details on the type of houses people intend to buy or build. The survey shows responses by age and income group, sex, province, city, and type of community. The survey was conducted in May-June 1994 and the degree of accuracy is nine times out of ten.

NHA MORTGAGE-BACKED SECURITIES

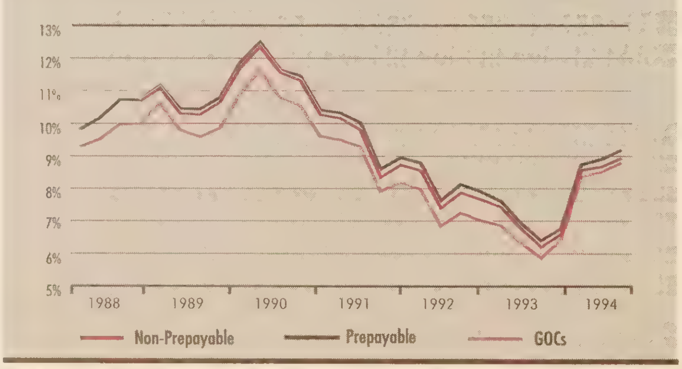
(Average of period except when indicated)

		1992	1993	1994	94Q1	94Q2	94Q3	94Q4
OUTSTANDING AMOUNT (End of period)								
TOTAL	$million	11,954.8	16,308.2	17,541.8	16,382.8	16,835.6	16,872.5	17,541.8
	Units	1,102	1,415	1,507	1,439	1,478	1,479	1,507
Residential, single (with PIP) [2]	$million	6,969.6	8,623.4	8,300.9	8,589.2	8,490.2	8,351.3	8,300.9
	Units	646	847	861	870	878	866	861
Residential, single (no PIP)	$million	0.0	0.0	610.5	0.0	247.2	330.3	610.5
	Units	0	0	53	0	25	38	53
Residential, multiple	$million	85.7	553.9	864.1	591.3	757.9	766.1	864.1
	Units	5	14	24	16	19	20	24
Social Housing	$million	4,643.7	6,886.2	7,522.1	6,967.5	7,091.5	7,178.3	5,522.1
	Units	435	532	541	530	530	528	541
Mixed	$million	255.8	$244.6	$244.2	$234.8	$248.8	$246.6	$244.2
	Units	16	22	28	23	26	27	28
ISSUES (Total of period)								
TOTAL	$million	5,959.4	6,579.8	3,719.7	720.5	1,173.4	640.5	1,185.2
	Units	388	428	290	73	81	57	79
Residential, single (with PIP)	$million	3,744.3	3,410.8	1,542.9	399.4	460.2	332.1	351.1
	Units	243	273	137	48	31	25	33
Residential, single (no PIP)	$million	0.0	0.0	620.2	0.0	248.4	85.9	286.0
	Units	0	0	53	0	25	13	15
Residential, multiple	$million	56.1	472.2	318.0	39.0	168.5	10.3	100.2
	Units	1	10	10	2	3	1	4
Social Housing	$million	2,052.8	2,652.5	1,189.6	270.1	266.9	208.6	444.0
	Units	136	139	84	22	19	17	26
Mixed	$million	106.3	44.2	48.9	12.0	29.5	3.7	3.8
	Units	8	6	6	1	3	1	1
YIELDS (5-year maturity,%)								
MBS Prepayable (with PIP)		8.37	7.21	8.40	6.78	8.74	8.90	9.19
MBS Prepayable (no PIP)		—	—	—	—	8.84	9.00	9.28
MBS Non-prepayable		8.16	7.04	8.22	6.63	8.59	8.70	8.96
MBS MMUF		8.28	7.15	8.33	6.75	8.64	8.79	9.14
MBS Hybrid		8.37	7.22	—	6.78	—	—	—
Mortgage rates		9.51	8.78	9.53	7.82	9.92	10.30	10.10
GOCs		7.51	6.53	7.94	6.41	8.35	8.49	8.78
SPREADS OVER GOC (5-year maturity,%)								
Prepayable (with PIP)		0.82	0.70	0.40	0.38	0.39	0.41	0.42
Prepayable (no PIP)		—	—	—	—	0.49	0.51	0.50
Non-prepayable		0.61	0.53	0.21	0.22	0.24	0.21	0.18
MMUF		0.72	0.63	0.32	0.34	0.29	0.30	0.37
Hybrid		0.82	0.71	—	0.38	—	—	—
Mortgage rates		2.00	2.24	1.60	1.41	1.57	1.81	1.32

(1) Cumulative (2) PIP stands for Penalty Interest Payments Not seasonally adjusted data

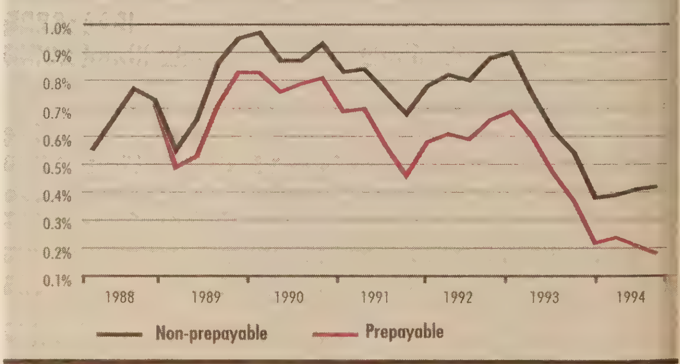
Source: CMHC, Nesbitt Burns *CMHC-MAC 1995*

Selected Interest Rates (5-year maturity)



Source: Nesbitt Burns *CMHC-MAC 1995*

Spreads over GOCs (5-year maturity)



Source: Nesbitt Burns *CMHC-MAC 1995*

CMHC MORTGAGE MARKET

TRENDS

MARKET ANALYSIS CENTRE

SECOND QUARTER 1995

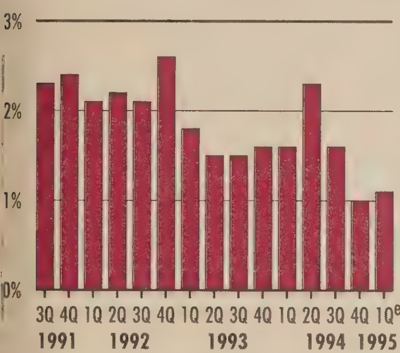
MORTGAGE LENDING

MORTGAGE LENDING LINGERS IN LOW GEAR

by Gilles Proulx, Chief Economist

A slow housing market remained the key trend affecting mortgage lending during the opening months of 1995. In spite of retreating mortgage rates, the recovery is expected to be modest.

Residential Mortgage Credit Growth*
(from previous quarter)



* nominal e: estimate
Source: Bank of Canada, CMHC CMHC – MAC 1995

Market Share of Residential Mortgage Credit

	1Q94	4Q94	1Q95^e
Banks	50.8%	53.3%	53.4%
Trusts	17.4%	14.9%	14.5%
Caisses & Co-op	14.1%	13.8%	13.8%
Life	6.9%	7.0%	7.0%
Pension Funds	2.6%	2.5%	2.5%
Fin. & Loan	8.3%	8.5%	8.5%

e: estimate
Source: Bank of Canada, CMHC CMHC – MAC 1995

The value of residential mortgages outstanding climbed 1.1 per cent or $3.6 billion during the first quarter of 1995 to a total of $334.9 billion. Mortgage lending has now maintained this slower pace for two quarters.

Housing markets proved sensitive to interest rates and consumer confidence again at the start of 1995 as mortgage interest rates moved back up due to a combination of higher rates in the U.S. and weaker currency.

In the first quarter, housing starts fell 10 per cent to a seasonally adjusted annual rate of 127,400 units compared to 141,700 during the last three months of last year. Sales through the MLS[1] system followed a similar pattern, falling 19 per cent to an annual rate of 221,500 units, compared to a rate of 273,200 during the closing quarter of 1994. The first quarter figures were the lowest in four years.

Also significant for mortgage lending is the fact that activity is falling off more in markets such as British Columbia where home prices and mortgage values are high. The average price of MLS transactions fell 5 per cent in the first quarter as a result of declines in high-priced areas.

Mortgage interest rates have now retreated significantly from their January-February level. Despite this, short-term prospects look dim: sales and new construction remained weak at the start of the second quarter and this points to an even slower second quarter.

Behind this trend is the fall in consumer confidence in the first quarter. This suggests only a modest rebound later this year, with any significant rebound delayed until next year. Based on this, it appears that for 1995 as a whole mortgage lending may end up growing by only 3 to 5 per cent—the smallest growth since 1983.

First quarter figures show that chartered banks hold 53.8 per cent of Canada's mortgage business, followed by trust companies at 14.5 per cent and credit unions and caisses populaires at 13.8 per cent. Other significant holders are finance and loan companies (8.5 per cent), life insurance companies (6.9 per cent) and pension funds (2.5 per cent).

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

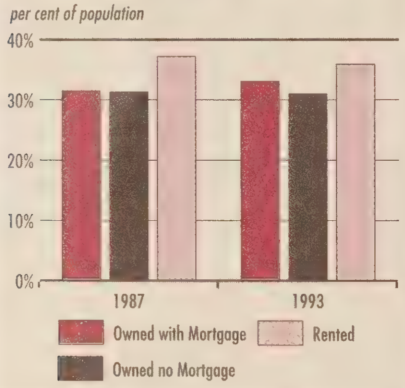
HOMEOWNERSHIP STILL ON THE RISE, HOUSEHOLD INCOME TELLS THE TALE

by Leonard FitzPatrick, Economist - Modelling and Forecasting

In an effort to find an answer to the question: "Where have all the buyers gone — long time passing," we ventured into the 1987 and 1993 HIFE (household, income, facilities and equipment) data sets produced by Statistics Canada. The results: home buyers have not left the Canadian scene, in fact, overall home-ownership has been on the rise.

In 1993, 64.1 per cent of Canadian households owned their home, up from 62.8 per cent in 1987. However, the proportion owning without a mortgage dipped slightly in 1993, while the percentage with a mortgage rose to 33.1 per cent from 31.5 per cent, six years earlier. Meanwhile, by 1993, the proportion of households that rented had fallen to 35.9 per cent from 37.2 per cent in 1987 (Figure 1).

FIGURE 1. OWNING VERSUS RENTING

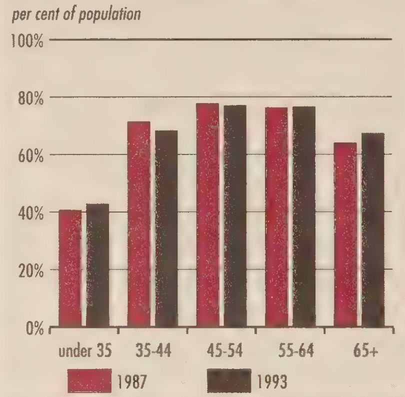


Source: Statistics Canada — CMHC – MAC 1995

Provincial data support the fact that the percentage of homeowning households has, for the most part, been on the rise. Indeed, apart from small declines recorded in Newfoundland, Saskatchewan and P.E.I. (Table 1), levels of home ownership remained the same or increased across Canada.

What's intriguing is that increases in home ownership between 1987 and 1993 occurred in the under-35, 55 to 64, and the over-65 age groups (Figure 2). Although ownership rates fell slightly in the 35 to 44 and 45 to 54 age groups, they are expected to improve with the recent introduction of the First Home Loan Insurance program and the Home Buyers' Plan. Moreover, as a direct result of these programs, the overall percentage of homeowners should increase over the long term.

FIGURE 2. AGE DISTRIBUTION OF HOMEOWNERS



Source: Statistics Canada — CMHC – MAC 1995

The data clearly show that the extent to which households purchase homes depends on household income[1]: homeownership has declined between 1987 and 1993 for households with an average annual income of less than $20,000 (Table 2), while a greater percentage of households with an

TABLE 1. PER CENT OF HOUSEHOLDS THAT ARE HOMEOWNERS

Provinces	1987	1993	change from 87 to 93
Nfld	81.25	78.53	–2.72
P.E.I.	73.50	73.43	–0.07
N.S.	71.58	72.34	0.76
N.B.	75.29	76.32	1.03
Quebec	55.27	56.30	1.03
Ontario	62.69	64.32	1.63
Manitoba	67.94	69.52	1.58
Sask.	72.30	71.75	–0.55
Alta.	63.04	67.76	4.72
B.C.	64.73	65.67	0.94
CANADA	62.8	64.1	1.30

Source: Statistics Canada — CMHC – MAC 199

TABLE 2. PROPORTION OF HOUSEHOLDS THAT ARE HOMEOWNERS

Household Income	Homeowners 1987	Homeowners 1993	All Households 1987	All Households 1993	Homeowners as a % of Total Household by Income Category 1987	Homeowners as a % of Total Household by Income Category 1993
Under $10,000	172,130	157,040	540,488	569,350	31.8	27.6
$10,000 - $14,999	317,088	338,285	820,474	937,946	38.6	36.1
$15,000 - $19,999	333,666	336,921	714,338	760,995	46.7	44.3
$20,000 - $24,999	347,312	428,889	676,799	791,524	51.3	54.2
$25,000 - $29,999	332,395	391,456	650,434	709,623	51.1	55.2
$30,000 - $34,999	359,316	415,145	617,840	687,416	58.2	60.4
$35,000 - $44,999	763,866	844,053	1,210,161	1,302,289	63.1	64.8
$45,000 - $54,999	784,418	847,417	1,086,064	1,162,940	72.2	72.9
$55,000 - $69,999	915,308	1,080,868	1,189,650	1,349,834	76.9	80.1
$70,000 +	1,375,167	1,732,257	1,575,373	1,975,312	87.3	87.7
ALL HOUSEHOLDS	5,700,666	6,572,331	9,081,621	10,247,229	62.8	64.1

Source: Statistics Canada — CMHC – MAC 1995

TABLE 3. HOMEOWNERS BY INCOME CATEGORY

Household Income	Percentage Increase of each income category 1987 to 1993
Under $10,000	–8.8
$10,000 - $14,999	6.7
$15,000 - $19,999	1.0
$20,000 - $24,999	23.5
$25,000 - $29,999	17.8
$30,000 - $34,999	15.5
$35,000 - $44,999	10.5
$45,000 - $54,999	8.0
$55,000 - $69,999	18.1
$70,000 +	26.0
TOTAL	15.3

urce: Statistics Canada CMHC – MAC 1995

ncome of more than $20,000 have lecided to purchase a home.

Interestingly, at the other end of he earning spectrum, not all high ncome households purchase iomes. However, the general trend mong high income earners is lefinitely toward homeownership. Moreover, apart from the "under 10,000" income bracket, where the ctual number of homeowning iouseholds declined, almost all ther income brackets posted solid ains in ownership (Table 3). Although, the rate of increase aried significantly by income racket. For example, in the $20,000 o $24,999 range, a 23.5 per cent ncrease in the number of households becoming homeowners was ecorded. In the $45,000 to $54,999 racket an 8.0 per cent increase was osted, whereas a 26 per cent ncrease in homeownership was egistered for households with an verage income greater than 70,000.

Indeed, homeowners' average ncome increased over the period 987 to 1993, while the average ncome of renters tended to lecrease (Table 4). A provincial reakdown shows that the only rovince to record a drop in the verage annual household income or homeowners was Alberta. A likely explanation for the falling ncome level here is the large number of young people who migrated to the province in the early 1990s. Nonetheless, referring to Table 1, Alberta posted the strongest growth rate in Canada in the desire of households to take on the challenge of home ownership. Definitely an indication of strength in the ownership market, not evidence of any weakness.

In addition, the data presented a couple of surprises. For example, the average annual household income for homeowners in Newfoundland and P.E.I. increased by $4,593 and $5,644 respectively [2], yet the percentage of households owning homes fell (Table 1). As for the rest of Canada, increases in incomes ranged from a low of $499 in Saskatchewan to a high of $4,967 in British Columbia.

...homeowners' average income increased over the period 1987 to 1993, while the average income of renters tended to decrease.

In stark contrast to the increase in household income for owners, the average annual household income of renters fell in five of the 10 provinces between 1987 to 1993, with marginal increases reported in New Brunswick (+$66) and Saskatchewan (+$53). Once again it was Alberta that faced the largest decline in household income with a drop of $4,695. However, large decreases were also recorded in Manitoba (-$3,395) and Nova Scotia (-$2,691).

In summary, the incidence of home ownership among the regions and age groups shows that there is still room for higher ownership levels. At the same time, these gains may be limited until renters' incomes improve.

(1) All income data in this article have been adjusted to 1993 dollar levels.

(2) It should be noted that Fishery conditions in Newfoundland in particular, and Atlantic Canada in general, have dramatically deteriorated since the survey was undertaken.

TABLE 4. TENURE BY AVERAGE HOUSEHOLD INCOME

Average Household Income ($)	1987 Owned	1987 Rented	1993 Owned	1993 Rented	Dollar increased: 1993 over 1987 Owned	Dollar increased: 1993 over 1987 Rented
Nfld	37,893	26,708	42,486	28,032	4,593	1,324
P.E.I.	38,018	27,647	43,662	26,607	5,644	–1,040
N.S.	43,358	29,431	44,275	26,740	917	–2,691
N.B.	41,401	27,206	45,626	27,272	4,225	66
Quebec	51,414	29,265	51,915	28,641	501	–624
Ontario	57,504	34,474	60,328	35,375	2,824	901
Manitoba	46,986	28,878	49,399	25,483	2,413	–3,395
Sask.	45,076	26,654	45,575	26,707	499	53
Alta.	55,212	35,142	53,853	30,447	–1,359	–4,695
B.C.	49,167	31,504	54,134	32,352	4,967	848

Source: Statistics Canada CMHC – MAC 1995

Mortgage Credit Outstanding[1] (in millions of dollars)

	1993	1994	1995[2]	94Q2	94Q3	94Q4	95Q1[e]
TOTAL	303,670	324,583	334,885	323,055	328,095	331,342	334,885
% change	7.8	6.9	6.0	2.3	1.6	1.0	1.1
Banks	147,164	170,364	179,995	170,116	174,382	176,527	179,995
Trust Co.	63,318	51,092	48,568	50,275	49,645	49,413	48,568
Caisses & CO-OP	42,531	45,161	46,219	45,074	45,473	45,721	46,219
Life Ins. Co.	21,214	22,334	23,369	21,981	22,520	23,131	23,369
Pension Funds	8,072	8,280	8,317	8,231	8,335	8,361	8,317
Fin. & Loan	21,371	27,352	28,418	27,378	27,741	28,190	28,418

(1) Seasonally Adjusted Data (2) Cumulative (e) Estimate

Source: Bank of Canada, CMHC — *CMHC – MAC 1995*

Residential Mortgage Credit Growth

Source: Bank of Canada; CMHC — *CMHC – MAC 1995*

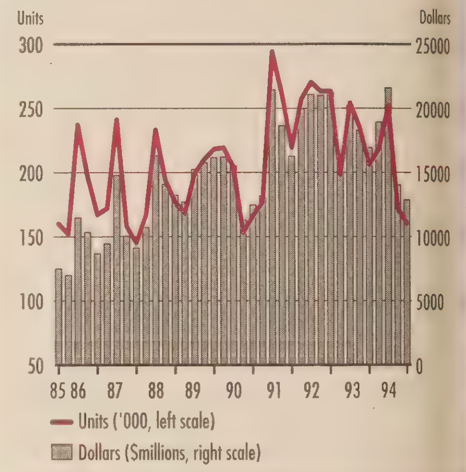
NHA and Conventional Loans Approved[1]

		1992	1993	1994	94Q2	94Q3	94Q4	95Q1
TOTAL	$ millions	82,935	71,665	17,564	21,588	14,019	12,850	–
	Units	1,047,914	893,016	221,430	252,210	172,015	159,870	–
NHA	$ millions	23,021	25,220	9,491	8,295	5,021	4,777	4,714
	Units	254,898	287,618	121,556	98,048	63,146	59,996	61,560
Conventional	$ millions	59,914	46,445	8,073	13,293	8,998	8,073	–
	Units	793,016	605,398	99,874	154,162	108,869	99,874	–
By Type of Lender								
Banks	$ millions	50,447	42,622	7,805	12,999	8,568	7,805	–
	Units	589,404	498,332	90,799	146,555	99,909	90,799	–
Trust Co.	$ millions	14,555	14,553	2,488	3,733	2,633	2,488	–
	Units	196,991	188,135	30,478	44,630	31,905	30,478	–
Life Ins. Co.	$ millions	5,310	4,624	793	1,127	765	793	–
	Units	90,751	78,175	13,972	17,343	11,156	13,972	–
Others	$ millions	12,623	9,866	1,764	3,729	2,053	1,764	–
	Units	170,768	128,374	24,621	43,682	29,045	24,621	–

(1) Not Seasonally Adjusted

Source: CMHC — *CMHC – MAC 1995*

NHA and Conventional Approvals



Source: CMHC — *CMHC – MAC 1995*

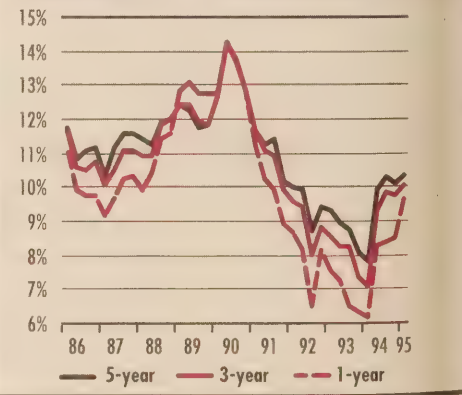
Mortgage Rates (%) (Average of period)

	1993	1994	1995[1]	94Q1	94Q2	94Q3	94Q4	95Q1
1-Year Mortgage Rate	6.91	7.83	9.63	6.17	8.28	8.38	8.50	9.63
3-Year Mortgage Rate	8.10	8.99	10.04	7.08	9.29	9.84	9.75	10.04
5-Year Mortgage Rate	8.78	9.53	10.34	7.82	9.92	10.30	10.10	10.34

(1) Cumulative

Source: Bank of Canada, CMHC — *CMHC – MAC 1995*

Mortgage Rates



Source: Bank of Canada — *CMHC – MAC 1995*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Marc Pellerin, Capital Markets Economist, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 495-2003.

Mortgage Market Trends is a quarterly publication. To order, call 1-800-668-CMHC, fax 1-800-463-3853 or mail your order form to:
CMHC,
P.O. Box 3077,
Markham, Ontario L3R 6G4

Annual subscription (4 issues) $44. + GST – Catalogue No. CMHC/MMTE.
Single issue $11. + GST – Catalogue No. CMHC/MMTE-1995-02.

Cette publication est aussi disponible en français sous le titre SCHL – Tendances du marché hypothécaire – Nº de catalogue : CMHC/MMTF.

ISSN 1188-4215
Printed in Canada

CMHC offers a wide range of housing-related information. For details, contact your local CMHC office.

CMHC subscribes to Canada's Green Plan. Quantities of our publication are limited to market demand; updates are produced only when required; and recycled or recyclable stock and non-toxic inks are used whenever possible.

NHA Mortgage-Backed Securities First Quarter Issues
January 1995 to March 1995

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: January 1995						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96411194	HOUSEHOLD TRUST COMPANY	4,049,516.21	9.000	January 01, 2000	10.30	24.33
96411202	SECURITY HOME MORTGAGE CORP.	4,181,436.66	8.750	January 01, 1998	9.55	24.92
96411244	SECURITY HOME MORTGAGE CORP.	2,742,833.37	9.000	January 01, 2000	10.10	25.00
96411269	HOUSEHOLD TRUST COMPANY	2,018,954.37	9.375	January 01, 2000	9.90	24.00
96411293	WESTMINSTER SAVINGS C.U.	3,409,045.08	8.750	January 01, 1998	9.46	21.08
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96700539	MANUFACTURERS LIFE INS. CO.	11,717,982.72	9.125	March 01, 2000	9.96	22.75
96700547	MANUFACTURERS LIFE INS. CO.	3,442,183.92	9.500	March 01, 2002	10.22	22.58
96700554	MANUFACTURERS LIFE INS. CO.	2,488,548.47	9.750	March 01, 2005	10.44	22.50
SOCIAL HOUSING POOLS						
99006710	TORONTO-DOMINION BANK	10,194,995.00	9.375	January 01, 2000	9.98	35.00
99006728	TORONTO-DOMINION BANK	40,371,074.00	9.375	January 01, 2000	9.97	35.00
99006736	CIBC MORTGAGE CORPORATION	36,331,065.00	8.500	January 01, 1998	9.78	35.00
99006744	CIBC MORTGAGE CORPORATION	6,568,574.00	9.000	January 01, 2000	9.78	35.00
99006751	BANK OF NOVA SCOTIA	50,867,858.52	8.500	January 01, 2000	9.70	33.67
MONTH OF ISSUE: February 1995						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96411277	BANQUE NATIONALE DU CANADA	3,243,639.83	9.000	January 01, 2000	10.05	12.33
96411285	BANQUE NATIONALE DU CANADA	6,385,472.70	9.000	February 01, 2000	10.04	30.75
96411301	SECURITY HOME MORTGAGE CORP.	2,676,989.74	9.000	February 01, 1998	10.25	24.58
96411319	SECURITY HOME MORTGAGE CORP.	3,803,799.04	9.375	February 01, 2000	10.40	24.17
96411335	MUTUAL TRUST COMPANY	13,722,153.75	8.000	December 01, 1999	9.51	21.17
96411343	MUTUAL TRUST COMPANY	11,917,381.05	6.250	December 01, 1999	7.40	21.83
96411350	MUTUAL TRUST COMPANY	16,497,073.67	8.000	December 01, 1999	9.59	21.08
96411368	MUTUAL TRUST COMPANY	4,953,887.63	6.250	December 01, 1999	7.66	21.25
96411376	HOUSEHOLD TRUST COMPANY	3,479,280.23	9.375	February 01, 2000	10.61	24.67
96411400	HOUSEHOLD TRUST COMPANY	2,029,660.18	8.875	February 01, 1998	10.11	23.08
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600283	EQUITABLE TRUST COMPANY	12,081,976.65	9.250	February 01, 2000	10.08	26.75
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96700562	MANUFACTURERS LIFE INS. CO.	2,206,260.43	9.125	April 01, 2000	9.97	12.17
96700570	MANUFACTURERS LIFE INS. CO.	8,458,205.55	9.250	April 01, 2000	10.22	22.50
SOCIAL HOUSING POOLS						
99006769	CIBC MORTGAGE CORPORATION	29,720,852.94	9.000	February 01, 2000	9.89	34.42
99006777	BANK OF NOVA SCOTIA	4,408,700.00	8.750	February 01, 2000	10.30	35.00
99006785	CIBC MORTGAGE CORPORATION	3,762,024.00	8.500	February 01, 1998	9.75	35.00
MONTH OF ISSUE: March 1995						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96411384	HOUSEHOLD TRUST COMPANY	6,033,355.28	9.375	March 01, 2000	10.41	24.00
96411392	SUN LIFE TRUST COMPANY	8,715,311.30	9.250	February 01, 2000	9.85	22.08
96411418	M.R.S TRUST COMPANY	2,488,977.86	8.875	March 01, 2000	10.23	23.25
96411426	WESTMINSTER SAVINGS C.U.	2,631,416.37	8.750	March 01, 2000	10.01	21.92
96411434	HOUSEHOLD TRUST COMPANY	5,031,108.97	8.750	March 01, 2000	9.90	24.50
96411442	SECURITY HOME MORTGAGE CORP.	2,149,793.43	9.125	March 01, 1998	10.40	24.00
96411467	SECURITY HOME MORTGAGE CORP.	3,013,987.70	8.875	March 01, 2000	10.44	25.00
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96600275	SECURITY HOME MORTGAGE CORP.	3,868,518.28	8.375	March 01, 2000	9.95	24.83

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96700588	MANUFACTURERS LIFE INS. CO.	2,716,852.53	8.750	May 01, 1998	9.84	21.17
96700596	MANUFACTURERS LIFE INS. CO.	4,972,980.35	8.875	May 01, 2000	10.13	22.75
SOCIAL HOUSING POOLS						
99006801	CIBC MORTGAGE CORPORATION	15,223,339.00	8.125	March 01, 2000	8.92	35.00
99006819	CIBC MORTGAGE CORPORATION	20,398,654.00	7.625	March 01, 1998	8.79	35.00
99006827	TORONTO-DOMINION BANK	20,255,671.00	8.500	March 01, 2000	9.08	35.00
99006835	FIRSTLINE TRUST COMPANY	4,046,271.02	8.000	March 01, 2000	9.05	31.25

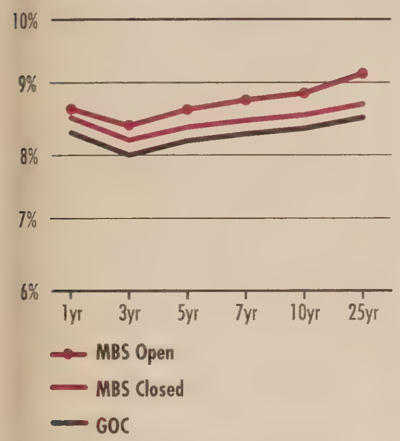
NHA MORTGAGE-BACKED SECURITIES

INTEREST RATES TAKE THEIR TOLL ON NHA MBS ISSUES

by Marc Pellerin, Economist - Capital Markets

New issues of NHA Mortgage-Backed Securities (MBSs) fell sharply during the first quarter of 1995 mainly in reaction to a drop in housing activity. The sluggish activity in the housing sector is the legacy of high interest rates and shaky consumer confidence at the end of 1994.

NHA Mortgage-Backed Securities Yield Analysis – *March 31, 1995*



Source: Nesbitt Burns *CMHC – MAC 1995*

NHA Mortgage-Backed Securities Yield Analysis – *Market at 14:01, May 26, 1995*

GOC description				
Coupon Rate	Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
8.00%	03/97	Open	45	7.60%
6.25%	02/98	Open	45	7.80%
8.00%	11/98	Open	45	7.81%
8.00%	11/98	Closed	22	7.58%
8.50%	03/00	Open	45	8.03%
8.50%	03/00	Closed	20	7.78%
9.00%	12/04	Open	53	8.57%

* Bid Side

Source: Telerate; average for MBS traders *CMHC – MAC 1995*

During the first three months of 1995, mortgage lenders issued 43 NHA MBSs totalling $409.3 million. This is significantly below the level of 79 issues for a value of $1,185.2 million recorded during the fourth quarter of 1994. In fact, the outstanding value of NHA MBSs dropped to $17,519.4 million at the end of the first quarter of 1995 from $17,541.8 million in December 1994.

Most of the drop in new issues of NHA MBSs occurred in single residential unit pools. They dropped to $151.2 million during the first quarter from $637.1 million in the previous quarter. New issues of social housing pools also went down to $242.1 million, from $444.0 million over the same period.

Factors that have held down the growth in new issues of single unit pools over the past year continued to be at play:

- Mortgage lending is at a sluggish pace because of high interest rates and shaky job security. For instance, five-year mortgage rates dropped about 75 basis points to 9.88 per cent during the first three months of the year but remained high considering the low level of inflation and the fact that there is almost no growth in household incomes. Moreover, consumer confidence as measured by the Conference Board of Canada fell more than 10 per cent during the first quarter of 1995.
- The shortage of new loans eligible to be securitized into NHA MBSs was exacerbated by borrowers' preference for short-term mortgages. An informal CMHC survey indicates that over 60 per cent of borrowers selected terms of one year or less during the first quarter of 1995 compared with 40 to 60 per cent in the preceding quarter. Borrowers preferred short-term mortgages. There was anecdotal evidence that consumers did not want to lock in to longer-term mortgages. Preliminary information collected for the second quarter indicates that homeowners still prefer short-term rates.
- Finally, the issuance of NHA MBSs was less cost effective. Few lenders now lend at posted mortgage rates and rate discounting is a common pratice in order to keep or attract clients.

The combination of low supply and strong demand for NHA MBSs kept their price high. This has resulted in a narrow yield spread between five-year NHA MBSs and the equivalent maturity Government of Canada bonds (GOCs). For instance, the interest rate differential between the yield on non-prepayable NHA MBSs and that on GOCs stood at less than 20 basis points during the first three months of the year. The yield spread between prepayable NHA MBSs and GOCs rose slightly to 46 basis points in the first quarter from 42 basis points in the preceding period.

MORTGAGE RATES AND HOUSING MARKETS OVER THE CYCLE

by Gilles Proulx, Chief Economist

Over the last thirty years, peaks and troughs in mortgage interest rates have generally led to substantial and opposite changes in sales of existing homes and new construction. The current rate retreat is therefore a positive signal.

During 1994, five-year mortgage interest rates surged from a thirty-year low, rising by 350 basis points to reach 10.75 per cent at the beginning of 1995. They have since retreated, but the sharp rise in mortgage costs has hurt cyclical sectors such as housing. It has also ended the uncoupling of mortgage rates and housing starts that set in at the end of 1991, when the reduction of interest rates failed to ignite a rebound in housing markets.

Broad cyclical profiles

The pattern of the last 30 years shows how broad cyclical swings in mortgage interest rates have usually pulled housing starts in the opposite direction (Figure 1). Two long periods of rising mortgage rates (from 2nd quarter 1977 to 3rd quarter 1981 and from 1st quarter 1987 to 2nd quarter of 1990) brought downward trends in new home construction, generally with a lag. Similarly, a long period of falling rates (from 3rd quarter 1981 to first quarter 1987) led to rising levels of construction activity.

Between 1991 and 1993, however, the link between mortgage rates and housing starts became uncoupled: rapidly falling mortgage rates failed to boost construction levels. This uncoupling has been attributed to the impact of a slow recovery in employment and incomes and to slower population growth. Similarly, rising mortgage rates over the period 1965 to 1976 did not turn the tide for markets as the baby-boom generation moved into adulthood.

Outside periods of soaring or tumbling rates, the relationship between housing markets and mortgage interest rates is often less striking. Demographic trends, economic conditions and other factors tend to outweigh the impact of mortgage rates.

Turning points

At turning points, however, mortgage rates clearly show up as the driving force in housing markets. The following table provides a review of interest rates and housing starts following cyclical peaks in mortgage rates. The link is evident as sharp changes in rates around peaks lead to more pronounced movements in starts.

For the five peaks documented in the table, new construction tended to respond with a lag averaging slightly less than two quarters. The rebound in starts in all cases was substantial.

For the resale market, the data available since 1983 show that turning points coincided with the interest rate peaks for both 1984 and 1990. This is consistent with the presence of first-time buyers on the resale market, a client group more dependent on mortgage financing and therefore more sensitive to mortgage interest rates.

Near term outlook

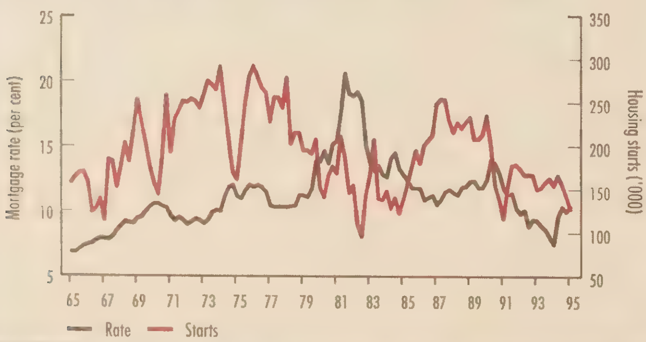
This review may shed some light on the near-term outlook for housing markets as interest rates seem to have peaked in the first quarter of 1995.

When will markets rebound? Will the rebound be as substantial as those seen in the past over the four-quarter period following the trough? Much will depend on the extent of the retreat in mortgage interest rates, and on how much pent-up demand was created during the last year.

First, the timing. A turnaround in both the resale market and new construction is likely in the second or third quarter of 1995.

Second, the size of the rebound. It is not clear that it will be as substantial as in the past. It is doubtful that mortgage rates will drop as much as they did following earlier peaks because this would push rates below their very low levels of a year ago. In addition, the period of rising rates was fairly short; as a result, the pent-up demand is likely to be limited.

FIGURE 1. 5-YEAR MORTGAGE RATE AND TOTAL HOUSING STARTS, 1965-95



Source: Bank of Canada, CMHC — CMHC – MAC 1995

TABLE 1. HOUSING STARTS BEHAVIOUR FOLLOWING MORTGAGE RATE PEAKS

When mortgage rates peaked	Their peak level	How much they fell in the following year	When starts touched bottom	Their bottom level	How much starts rose in the following year	Delay in housing starts turning point
	(%)	(Basis pts)		('000 units)	('000 units)	
70Q2	10.57	–131	70Q2	143.8	+87.3	0 quarter
74Q4	11.98	0	75Q1	161.6	+130.8	1 quarter
81Q3	21.17	–292	82Q3	96.0	+43.3	4 quarters
84Q3	14.47	–268	84Q4	122.7	+71.5	1 quarter
90Q2	14.25	–300	91Q1	116.5	+57.0	3 quarters
95Q1	10.34	?				
Memo item Average:		–198			+78.0	1.8 quarters

Source: Bank of Canada, CMHC — CMHC – MAC 1995

THE EFFECTS OF INHERITANCES ON MORTGAGE LENDING

by Marc Pellerin, Economist - Capital Markets

It has been predicted that Canada's aging population will mean a significant accumulation of savings that will eventually translate into inheritances and, in turn, into prepayments on mortgage loans. A quick look at demographics, combined with a survey conducted for CMHC, reveals that this could indeed be the case, although not for another 20 years or so down the road.

What about inheritance expectations?

The survey – Consumer Housing Preferences in the 1990s[1] – reveals that more than one Canadian out of four (27 per cent) anticipates inheriting some assets in the future, while 70 per cent do not. However, the percentage of people expecting inheritances climbs to over 34 per cent for those born after 1945.

More people expect to inherit in provinces where house prices are the most expensive: B.C. (35 per cent), Ontario (32 per cent), and Alberta (29 per cent). The lowest proportions of Canadians who anticipate inheriting are in Quebec (17 per cent) and Nova Scotia (18 per cent).

How would the inheritances be used?

The impact of inheritances on mortgage lending is potentially significant as most respondents indicated that they would use some of the inheritance on housing (Table 1). Thirty one percent of respondents mentioned paying down their mortgage. About 27 per cent indicated they would buy a new home while 22 per cent would use their inheritance to buy an existing home. Renovations were mentioned by 19 per cent of people surveyed.

A breakdown by age group reveals that for 40 per cent of Late Boomers the top priority would be paying off their existing mortgage. For Post-Boomers, on the other hand, a new home would be at the top of the shopping list.

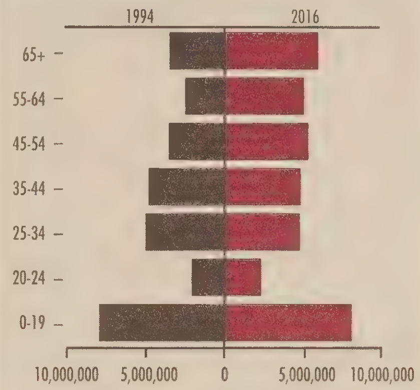
Even the Pre-Boomers and the early Baby Boomers would use the inheritance to pay down their mortgage. The survey indicates that 33 per cent of Pre-Boomers still have a mortgage on their principal residence and that there is an average of 10.5 years remaining on their mortgage. Sixty-five per cent of Early Boomers have a mortgage with an average 10.6 years left to be paid.

The aging of the population may favor higher savings

The impact of inheritances on the mortgage market could be significant because of the aging of the population. Older households may have a higher propensity to save than younger households because they need to spend less on big ticket items such as a home. Figure 1 shows that a good share of the population will be over 55 by the year 2016.

Conclusions about the impact of inheritances on mortgage financing should be interpreted with caution given the little information available. The consideration of elements such as savings by age group, the behaviour toward savings, or the impact of inheritances on the housing market in the past are also important. Moreover, a closer examination of housing markets with an older population structure in other developed countries could potentially provide some insight on the saving rate and how people spent their inheritance. Finally, we could ask people what they would expect to leave to their heirs as inheritances.

FIGURE 1. POPULATION BY AGE GROUP



Source: Statistics Canada, Projection by CMHC — CMHC – MAC 1995

TABLE 1. HOW WOULD YOU USE THE INHERITANCE *(in per cent)*

	TOTAL	Post-Boom. 1965 to 1976	Total Boom. 1946 to 1964	Late Boom. 1955 to 1964	Early Boom. 1946 to 1954	Pre-Boom. 1929 to 1945
Pay Down Your Existing Mortgage	31	26	37	40	32	21
Renovate	19	19	19	18	20	22
Buy a New Home	27	40	21	22	20	22
Buy an Existing Home	22	33	18	19	16	14
Others	37	27	43	39	46	42

Source: CMHC — CMHC – MAC 1995

(1) Consumer Housing Preferences in the 1990s provides more detailed breakdowns by age group and income, as well as spotlights on Vancouver, Toronto and Montréal. The survey is available on a Windows-compatible 3.5" disk as well as in hard copy. The report costs $149.95, and the publication and companion disk $199.95.

To order your copy, call 1-800-668-CMHC. If Consumer Housing Preferences In The 1990s doesn't meet your expectations, return it within 21 days for a prompt refund.

NHA MORTGAGE-BACKED SECURITIES

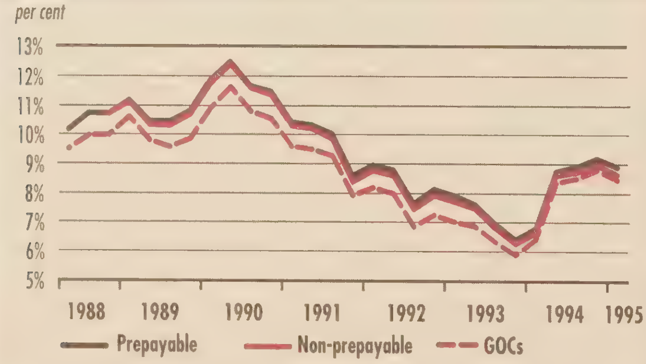
(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

		1993	1994	1995[1]	94Q2	94Q3	94Q4	95Q1
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	16,308.2	17,541.8	17,519.4	16,835.6	16,872.5	17,541.8	17,519.4
	Units	1,415	1,507	1,509	1,478	1,479	1,507	1,509
Residential, single (with PIP)[2]	$million	8,623.4	8,300.9	8,149.8	8,490.2	8,351.3	8,300.9	8,149.8
	Units	847	861	854	878	866	861	854
Residential, single (no PIP)	$million	0.0	610.5	640.6	247.2	330.3	610.5	640.6
	Units	0	53	60	25	38	53	60
Residential, multiple	$million	553.9	864.1	877.7	757.9	766.1	864.1	877.7
	Units	14	24	26	19	20	24	26
Social Housing	$million	6,886.2	7,522.1	7,615.5	7,091.5	7,178.3	7,522.1	7,615.5
	Units	532	541	541	530	528	541	541
Mixed	$million	244.6	244.2	235.8	248.8	246.6	244.2	235.8
	Units	22	28	28	26	27	28	28
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	6,579.8	3,719.7	409.3	1,173.4	640.5	1,185.2	409.3
	Units	428	290	43	81	57	79	43
Residential, single (with PIP)	$million	3,410.8	1,542.9	115.2	460.2	332.1	351.1	115.2
	Units	273	137	22	31	25	33	22
Residential, single (no PIP)	$million	0.0	620.2	36.0	248.4	85.9	286.0	36.0
	Units	0	53	7	25	13	15	7
Residential, multiple	$million	472.2	318.0	16.0	168.5	10.3	100.2	16.0
	Units	10	10	2	3	1	4	2
Social Housing	$million	2,652.5	1,189.6	242.1	266.9	208.6	444.0	242.1
	Units	139	84	12	19	17	26	12
Mixed	$million	44.2	48.9	0.0	29.5	3.7	3.8	0.0
	Units	6	6	0	3	1	1	0
YIELDS (5-YEAR MATURITY, %)								
MBS Prepayable (with PIP)		7.21	8.40	8.90	8.74	8.90	9.19	8.90
MBS Prepayable (no PIP)		–	9.04	8.94	8.84	9.00	9.28	8.94
MBS Non-prepayable		7.04	8.22	8.63	8.59	8.70	8.96	8.63
MBS MMUF		7.15	8.33	8.73	8.64	8.79	9.14	8.73
MBS Hybrid		7.22	–	–	–	–	–	–
Mortgage rates		8.78	9.53	10.34	9.92	10.30	10.10	10.34
GOCs		6.51	8.01	8.44	8.35	8.49	8.78	8.44
SPREADS OVER GOC (5-YEAR MATURITY, %)								
Prepayable (with PIP)		0.70	0.40	0.46	0.39	0.41	0.42	0.46
Prepayable (no PIP)		–	0.50	0.50	0.49	0.51	0.50	0.50
Non-prepayable		0.53	0.21	0.19	0.24	0.21	0.18	0.19
MMUF		0.63	0.32	0.29	0.29	0.30	0.37	0.29
Hybrid		0.71	–	–	–	–	–	–
Mortgage Rates		2.26	1.53	1.90	1.57	1.81	1.32	1.90

(1) Cumulative (2) PIP stands for Penalty Interest Payments Not seasonally adjusted data.

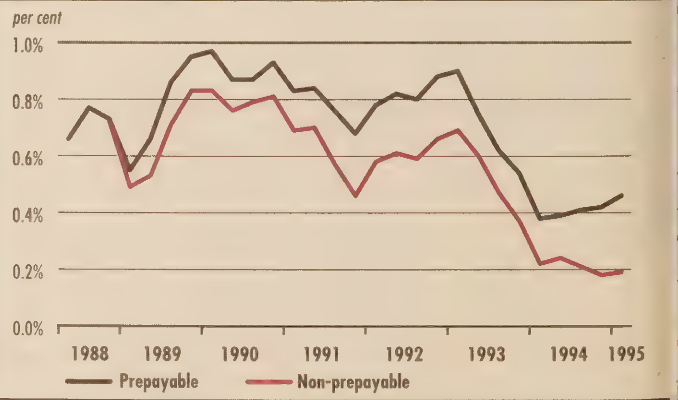
Source: CMHC, Nesbitt Burns CMHC – MAC 1995

Selected Interest Rates (5-year maturity)



Source: Nesbitt Burns CMHC – MAC 1995

Spreads over GOCs (5-year maturity)



Source: Nesbitt Burns CMHC – MAC 1995

CMHC MORTGAGE MARKET
TRENDS
MARKET ANALYSIS CENTRE
THIRD QUARTER 1995

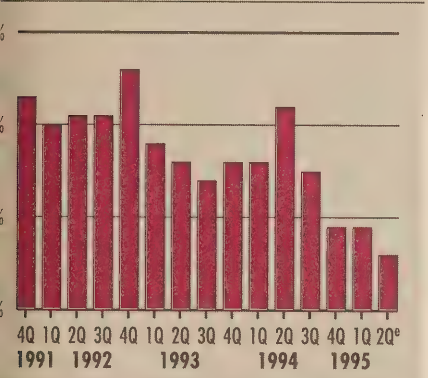
MORTGAGE LENDING

MORTGAGE LENDING POISED FOR RECOVERY

y Gilles Proulx, Chief Economist

Mortgage lending inched up only marginally during the spring of 1995, but is expected to rise faster in the latter half of the year as housing markets pick up steam.

esidential Mortgage Credit Growth*
rom previous quarter)



minal e: estimate
rces: Bank of Canada; CMHC. CMHC – MAC 1995

arket Share of Residential Mortgage Credit

	2Q94	1Q95	2Q95^e
nks	52.7%	53.9%	54.0%
sts	15.6%	14.6%	14.4%
sses & Co-op	14.0%	14.0%	14.0%
e	6.8%	6.9%	6.9%
nsion Funds	2.5%	2.5%	2.5%
. & Loan	8.5%	8.2%	8.2%

timate
rces: Bank of Canada; CMHC. CMHC – MAC 1995

During the second quarter of 1995, residential mortgage credit outstanding increased by 0.6 per cent, or \$2.1 billion, reaching a total value of \$336.1 billion. The spring rise was the smallest since the closing quarter of 1982 when lending rose only 0.1 per cent.

This slow advance reflected another drop in new construction activity as housing starts fell 15 per cent to a seasonally adjusted annual rate of 108,300. This is down from 127,400 units during the first quarter of the year.

Another factor holding back lending growth is lower average prices mainly due to a sales slump in high-priced housing markets. This brought down second-quarter resale prices for all of Canada by 6 per cent from last year's level, while new-home prices declined 1 per cent. The lower prices translated into smaller loans.

There were, however, convincing signs of a turnaround in Canada's existing-home market. MLS(1) sales firmed up in May and June, ending a three-month slump. As a result, second-quarter sales jumped by 20 per cent to 253,500 units, up from 210,800 units in the first quarter. The surge was due to a decline in mortgage rates which are nearly 200 basis points lower than the peak seen in February. As usual, the resale market was reacting promptly to mortgage rate trends.

This resale recovery is one sign that lending activity will strengthen during the rest of the year. Partial evidence from monthly data and from discussions with industry leaders also points in this direction.

For the year as a whole, however, mortgage lending is expected to grow by only 3 to 5 per cent, as predicted in the previous issue of Mortgage Market Trends. This will be the lowest rate of increase since 1983.

By the end of the second quarter, chartered banks held 54.0 per cent of Canada's mortgage business, slightly more than in the previous quarter. The share held by trust companies declined somewhat to 14.4 per cent, while that of credit unions and Caisses populaires held steady at a revised 14 per cent. Other significant holdings are by finance and loan companies (8.2 per cent), life insurance companies (6.9 per cent) and pension funds (2.5 per cent).

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

NEW RESEARCH SHEDS LIGHT ON RESIDENTIAL MORTGAGE CLAIMS

by Tim Elliot, Economist, Business and Risk Analysis*

Higher mortgage rates at renewal are an important factor determining whether or not homeowners will default on their mortgages and whether insurance claims are made, new CMHC research show

These conclusions are the result of a 1994 CMHC study of the causes of residential mortgage insurance claims (i.e. NHA loans only) brought about by defaulting homeowners. Previous attempts at such research met with limited success partly because of a lack of data to analyze. Prior to the late 1970s, insurance claims were very rare, but they rose dramatically since then.

The main objective of the CMHC research project was to develop state-of-the-art forecasting models to explain the large peaks and troughs in total claims over the years. The project took a macro-level approach, analyzing factors that affect large numbers of claims simultaneously, for example, unemployment, housing starts, initiation volumes and the average Loan-to-Value (LTV) ratio. By contrast, a micro approach would look at factors affecting individual loans — such things as credit ratings, employment histories, Gross Debt Service (GDS) and LTV.

The data

It was decided to focus on the existing, or resale, portion of homeowner business since it accounts for three-quarters of all owner-occupied mortgage business. Therefore, the study excludes claims on new homes and rental units.

Claims history shows that the total number of claims per year varied widely over time, hitting a number of highs and lows between 1978 and 1994. The trends vary widely among regions as well. The mid-1980s jump in existing-home claims was largely due to the high level of claims activity in Alberta. The peak of the early 1990s, however, was mostly because of activity in central Canada.

Atlantic Canada Models

	Newfoundland	PEI	Nova Scotia	New Brunswick	Atlantic Region
Mortgage Rate Change	Direct	Direct	Direct	Direct	Direct
Average LTV	NSS*	Direct	Direct	Direct	NSS
Housing Starts	Inverse	NSS	NSS	Inverse	Inverse
Average NHA Price	NSS	NSS	Direct	Direct	Direct
Real Disposable Income	NSS	Inverse	NSS	NSS	NSS
Unemployment	NSS	Direct	NSS	NSS	NSS

* NSS = Not Statistically Significant
Source: CMHC.

CMHC – MAC

Central Canada Models

	Quebec	Ontario	Toronto
Mortgage Rate Change	Direct	Direct	Direct
Average LTV	NSS	NSS	NSS
Housing Starts	Inverse	Inverse	Inverse
Industrial Diversification	NSS	Used	NSS
Average NHA Price	Direct	Direct	NSS
# Loans with GDS Greater than 30%	NSS	NSS	Direct
Real Disposable Income	NSS	Inverse	NSS
Real GDP	Inverse	NSS	NSS

Source: CMHC.

CMHC – MAC

Western Canada Models

	Manitoba	Saskatchewan	Alberta	B.C.	Vancouver
Mortgage Rate Change	Direct	Direct	Direct	Direct	Direct
Employment Level	NSS	NSS	NSS	Inverse	NSS
Housing Starts	NSS	NSS	NSS	NSS	Inverse
Industrial Diversification	Used	NSS	Used	NSS	NSS
Labour Force	NSS	NSS	NSS	NSS	Inverse
Average MLS Price	NSS	NSS	NSS	NSS	Direct
# Loans with GDS Greater than 30%	Direct	Direct	Direct	NSS	NSS
Real Disposable Income	NSS	NSS	Inverse	NSS	NSS
Population Growth	NSS	Inverse	NSS	NSS	NSS
Unemployment	NSS	NSS	NSS	Direct	Direct

Source: CMHC.

CMHC – MAC

To address this wide variation among regions, models were developed for 15 geographical regions: one national, 10 provincial, two regional (Atlantic and Manitoba/Saskatchewan), and two municipal (Toronto and Vancouver).

The models

The research considered just about every variable thought to have an impact on overall claims, the only limitation being availability of data. Variables looked at included: loan characteristics, the borrower's equity in the property, the borrower's ability to pay and housing market conditions. Measures of industrial diversification, population count and macroeconomic conditions of each area were also taken into account in designing the models.

All the models except the one for P.E.I. had a good statistical fit. The results for P.E.I. were weak due to the limited number of claims in that province.

The final selection of variables was based on their explanatory power. Considering the large differences in claims trends among regions, it is not surprising that the variables used differed for each region.

Only one factor showed up in every model: how much mortgage rates changed from initiation to first renewal. In the 1990s, the average mortgage term selected by home-owners, and thus the average time between initiation and renewal, has been 3.5 years.

The tables show what variables were used in which models. These tables indicate whether the variables are directly or inversely related to claims, or whether the variable was not statistically significant in a particular model. In a direct relationship, a rise in a variable will push up claims. In an inverse relationship, a rise in a variable will cause the rate of claims to fall. For example, higher mortgage rates at renewal will increase the likelihood that mortgage claims rise. Therefore, the relationship between claims and mortgage rates is direct.

The modelling approach used took into account the timelag between mortgage initiation and default, and between default and claim. The approach also accounted for the fact that short-term changes in an explanatory variable do not necessarily result in claims, but rather, the accumulated effect of the variables over time causes claims. For example, if mortgage rates jump one month but drop the next, the effect on total claims may be minimal. However, if rates rise and remain high, this will impact claims. The delay in impact means that trends in the variables serve as good leading indicators for trends in claims activity.

Two variables, industrial diversification and the average NHA house price, require further explanation. In regions with low economic diversification there is greater risk that a recession will affect a greater proportion of borrowers. An extreme example is a mining town where, if the mine closes, all the borrowers in town are affected. Economic diversification played a role in the models of three provinces: Ontario, Manitoba and Alberta.

The impact of the average NHA house price also produced interesting results. In the models where this variable was used, it had a direct impact on claims. That is, as the average house price increased, so did claims. When the average price was used in a model, GDS or average loan variables were not used because they were not statistically significant. From this, one could conclude that the average NHA house price can be used as a proxy for debt load.

The national model suggests that the inability to pay is the main cause of default among borrowers. Three variables in the model relate to ability to pay. Interest rate changes and house prices impact on borrowers' debt servicing costs, while employment rates affect borrowers' ability to earn an income. Equity still plays a role. If a borrower loses the ability to pay, but still has equity in the home, an attempt will be made to sell first. The effect of market conditions on equity is represented by housing starts.

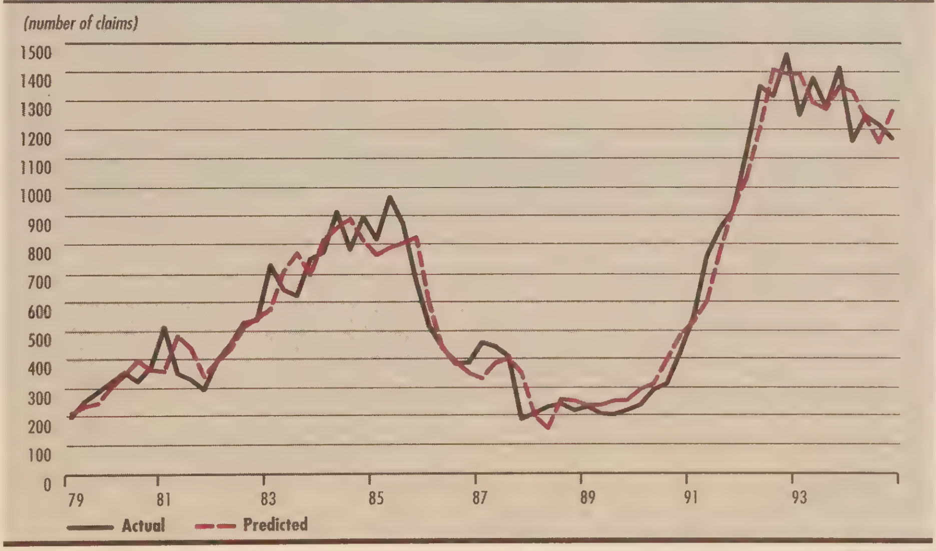
* If you have any questions about the models, please call Tim Elliot at (613) 748-2996.

National Model

	Canada
Mortgage Rate Change	Direct
Employment Level	Inverse
Housing Starts	Inverse
Average NHA Price	Direct

Source: CMHC. CMHC – MAC 1995

NHA National Claims, Actual and Predicted, 1979 - 1994



Source: CMHC. CMHC – MAC 1995

INDICATORS OF MORTGAGE LENDING ACTIVITY

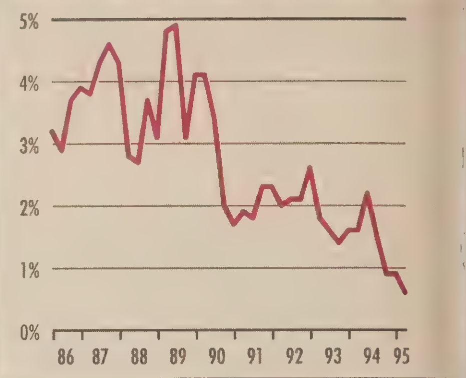
Mortgage Credit Outstanding[1] (in millions of dollars)

	1993	1994	1995[2]	94Q3	94Q4	95Q1	95Q2[e]
TOTAL	304,122	324,516	335,067	328,048	330,862	334,002	336,132
% change	8.0	6.7	4.8	1.5	0.9	0.9	0.6
Banks	147,164	170,364	180,826	174,382	176,527	179,994	181,657
Trust Co.	63,724	51,147	48,574	49,644	49,419	48,687	48,460
Caisses & CO-OP	42,531	45,233	46,881	45,490	45,984	46,688	47,074
Life Ins. Co.	21,251	22,381	23,058	22,614	23,091	23,022	23,094
Pension Funds	8,073	8,274	8,279	8,335	8,339	8,277	8,281
Fin. & Loan	21,379	27,118	27,450	27,584	27,503	27,333	27,566

(1) Seasonally Adjusted Data (2) Cumulative (e) Estimate

Sources: Bank of Canada; CMHC. *CMHC – MAC 1995*

Residential Mortgage Credit Growth



Sources: Bank of Canada; CMHC. *CMHC – MAC 1995*

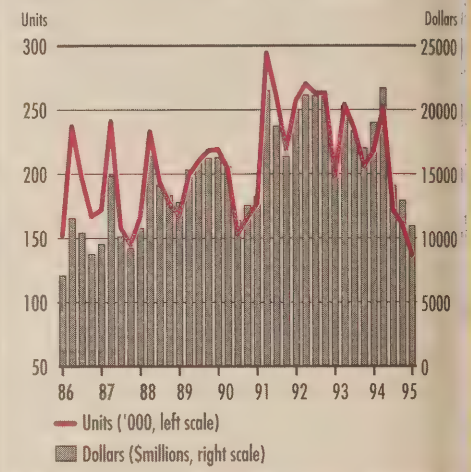
NHA and Conventional Loans Approved[1]

		1992	1993	1994	94Q2	94Q3	94Q4	95Q1
TOTAL	$ millions	82,935	71,008	67,433	21,588	14,019	12,850	10,876
	Units	1,047,914	883,162	803,511	252,210	172,015	159,870	137,484
NHA	$ millions	23,021	25,081	26,103	8,295	5,021	4,777	4,714
	Units	254,898	286,800	308,210	98,048	63,146	59,996	61,560
Conventional	$ millions	59,914	45,927	41,330	13,293	8,998	8,073	6,162
	Units	793,016	596,362	495,301	154,162	108,869	99,874	75,924
By Type of Lender								
Banks	$ millions	50,447	42,590	40,443	12,999	8,568	7,805	6,554
	Units	589,404	498,373	461,639	146,555	99,909	90,799	75,533
Trust Co.	$ millions	14,555	14,271	12,567	3,733	2,633	2,488	1,925
	Units	196,991	184,716	148,398	44,630	31,905	30,478	24,495
Life Ins. Co.	$ millions	5,310	4,573	4,138	1,127	765	793	672
	Units	90,751	75,950	64,056	17,343	11,156	13,972	10,919
Others	$ millions	12,623	9,573	10,285	3,729	2,053	1,764	1,725
	Units	170,768	124,123	129,418	43,682	29,045	24,621	26,537

(1) Not Seasonally Adjusted

Source: CMHC. *CMHC – MAC 1995*

NHA and Conventional Approvals



Source: CMHC. *CMHC – MAC 1995*

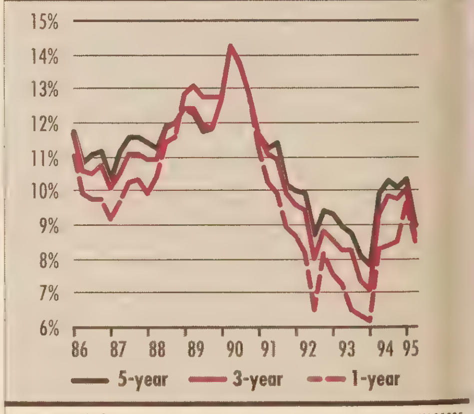
Mortgage Rates (%) (Average of period)

	1993	1994	1995[1]	94Q2	94Q3	94Q4	95Q1	95Q2
1-Year Mortgage Rate	6.91	7.83	9.07	8.28	8.38	8.50	9.63	8.50
3-Year Mortgage Rate	8.10	8.99	9.36	9.29	9.84	9.75	10.04	8.67
5-Year Mortgage Rate	8.78	9.53	9.65	9.92	10.30	10.10	10.34	8.96

(1) Cumulative

Sources: Bank of Canada; CMHC. *CMHC – MAC 1995*

Mortgage Rates



Source: Bank of Canada. *CMHC – MAC 1995*

N O T E

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Marc Pellerin, Senior Economist - Capital Markets, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 495-2003.

Mortgage Market Trends is a quarterly publication. To order, call 1-800-668-CMHC, fax 1-800-463-3853 or mail your order form to:
CMHC,
P.O. Box 3077,
Markham, Ontario L3R 6G4

Annual subscription (4 issues) $44. + GST – Catalogue No. CMHC/MMTE.
Single issue $11. + GST – Catalogue No. CMHC/MMTE-1995-03.

Cette publication est aussi disponible en français sous le titre SCHL – Tendances du marché hypothécaire – N° de catalogue : CMHC/MMTF.

ISSN 1188-42 15
Printed in Canada

CMHC offers a wide range of housing-related information. For details, contact your local CMHC office.

CMHC subscribes to Canada's Green Plan. Quantities of our publication are limited to market demand; updates are produced only when required; and recycled or recyclable stock and non-toxic inks are used whenever possible.

NHA Mortgage-Backed Securities Second Quarter Issues

April 1995 to June 1995

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: April 1995						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-411-459	SECURITY HOME MORTGAGE CORP.	4,498,591.08	8.500	April 1, 2000	10.13	23.36
96-411-483	HOUSEHOLD TRUST COMPANY	5,057,565.21	8.625	April 1, 2000	10.08	24.01
96-411-491	HOUSEHOLD TRUST COMPANY	3,757,861.91	8.000	April 1, 1998	10.18	23.12
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-700-604	MANUFACTURERS LIFE INS CO.	11,841,034.96	8.500	June 1, 2000	9.69	22.00
SOCIAL HOUSING POOLS						
99-006-843	TORONTO-DOMINION BANK	4,713,795.77	8.125	April 1, 2000	9.17	34.98
99-006-850	TORONTO-DOMINION BANK	7,195,500.00	8.625	April 1, 2000	9.15	35.00
99-006-868	BANK OF NOVA SCOTIA	47,338,058.00	8.000	April 1, 2000	9.23	35.00
99-006-793	BANK OF NOVA SCOTIA	43,864,292.86	8.500	April 1, 2000	9.04	31.83
MONTH OF ISSUE: May 1995						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-411-541	CIBC MORTGAGE CORPORATION	4,034,536.84	7.750	April 1, 1998	9.53	23.68
96-411-558	CIBC MORTGAGE CORPORATION	7,082,047.62	7.750	April 1, 1999	7.32	22.42
96-411-327	SECURITY HOME MORTGAGE CORP.	4,517,691.61	8.000	May 1, 2000	9.84	23.33
96-411-475	SECURITY HOME MORTGAGE CORP.	2,016,807.86	7.750	May 1, 1998	10.08	23.21
96-411-509	M.R.S. TRUST COMPANY	3,974,674.63	8.250	May 1, 2000	9.72	23.16
96-411-517	HOUSEHOLD TRUST COMPANY	5,008,640.06	8.250	May 1, 2000	9.87	23.55
96-411-525	HOUSEHOLD TRUST COMPANY	5,059,832.90	8.250	November 1, 1999	9.48	23.83
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-291	PEOPLES TRUST COMPANY	34,812,257.79	7.625	May 1, 2000	9.16	25.93
96-600-309	FIRSTLINE TRUST COMPANY	21,436,676.00	7.875	May 1, 2000	9.10	24.51
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-700-612	MANUFACTURERS LIFE INS CO.	7,024,687.67	8.250	July 1, 2000	9.56	21.77
96-700-620	MANUFACTURERS LIFE INS CO.	5,167,039.94	8.250	July 1, 2002	9.98	23.47
SOCIAL HOUSING POOLS						
99-006-876	NATIONAL BANK OF CANADA	6,148,167.82	7.750	May 1, 2000	8.53	30.94
99-006-884	CIBC MORTGAGE CORPORATION	6,774,780.00	7.375	May 1, 1998	8.56	35.00
99-006-892	TORONTO-DOMINION BANK	11,956,741.00	8.375	May 1, 2000	8.89	35.00
99-006-900	BANK OF NOVA SCOTIA	4,203,129.00	8.000	May 1, 2000	8.78	35.00
MONTH OF ISSUE: June 1995						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-411-566	TORONTO-DOMINION BANK	2,951,047.03	8.750	December 1, 2004	10.10	19.42
96-411-574	HOUSEHOLD TRUST COMPANY	2,515,394.57	7.750	June 1, 1998	10.01	21.92
96-411-582	HOUSEHOLD TRUST COMPANY	5,042,617.75	8.000	June 1, 2000	9.70	24.33
96-411-590	SECURITY HOME MORTGAGE CORP.	5,006,256.04	8.000	June 1, 2000	9.34	22.62
96-411-608	M.R.S. TRUST COMPANY	4,004,819.79	7.625	June 1, 2000	9.18	23.15
96-411-616	HOUSEHOLD TRUST COMPANY	5,012,724.95	7.125	November 1, 1999	9.16	23.20
96-411-624	VANC. CITY SVGS. CREDIT UNION	18,082,826.23	7.875	May 1, 2000	9.86	20.79
96-411-657	FIRST HERITAGE SAVINGS CR.UN.	2,397,302.05	7.500	June 1, 2000	9.73	23.03
96-411-665	SECURITY HOME MORTGAGE CORP.	2,063,484.07	7.500	June 1, 2000	8.91	24.33
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-700-638	MANUFACTURERS LIFE INS CO.	8,721,532.67	7.625	August 1, 2000	8.97	23.39
SOCIAL HOUSING POOLS						
99-006-918	TORONTO-DOMINION BANK	18,139,999.00	7.875	June 1, 2000	8.39	35.00
99-006-926	TORONTO-DOMINION BANK	14,214,745.00	7.375	June 1, 2000	8.38	35.00

SHORT-TERM MORTGAGES THE PREFERENCE, LONG-TERM THE PRACTICE

)y Marc Pellerin and Gilles Proulx

Homebuyers seeking NHA-insured mortgages tend to lock into five-year terms, CMHC research shows. Conventional consumers (those without NHA financing) tend to take shorter terms. Within both groups, however, the preference seems to be for a shorter term than what the consumer currently holds.

Since the beginning of the 1990s, the five-year mortgage has been he popular choice of a majority of NHA ıomebuyers. As Table 1 shows, 51 per ent of NHA-approved loans over this)eriod were the five-year type. Slightly nore than a quarter of loans were one-ear terms or less, while most of the rest vere in-between. A small proportion 2.6 per cent) were for terms of more han five years.

The trend may be partly due to the act that NHA homebuyers include a arge number of first-time buyers, a roup that values the predictability of a onger-term mortgage. Another factor is he CMHC First Home Loan Insurance FHLI) program introduced in 1992, vhich initially required five-year nortgage selection. This requirement vas relaxed in 1994.

Despite the general trend, NHA uyer behaviour has varied over time, s Chart 1 shows. In early 1992, three ut of four NHA consumers opted for ive-year mortgages. By contrast, only 0 per cent opted for that term in mid-990 when the five-year rate hit 14.5 per ent. In 1994, when rates were once nore on the rise, fewer than 40 per cent hose to lock in for the long term.

The data suggests that when rates go ıp, people choose shorter-term mort-ages so as not to be stuck for too long vith high carrying costs. As well first-ime buyers, who are more sensitive to nortgage costs, are forced out of the narket by high rates, and re-enter as nortgage financing becomes more ffordable.

Chart 2 demonstrates the inverse elationship between five-year mort-age rates and the proportion of buyers vho opt for it. Both after mid-1990 and ı early 1995, the retreat of mortgage ates induced more buyers to go for the onger term.

Regional choices vary

Consumer behaviour also varies from province to province when it comes to selecting mortgage terms. As seen in Table 1, the preference for longer terms was most pronounced in the Atlantic provinces, where 60 per cent or more of NHA homebuyers chose to lock in for the full five years. This likely reflects the caution of Atlantic buyers, who are affected by lower incomes and more fragile labour markets.

In Ontario and British Columbia, high house prices mean that mortgage payments take a larger bite out of income than in places where prices are low. Not surprisingly, buyers in these two provinces also favoured longer terms. Manitoba showed a similar trend even though its home prices are not particularly high.

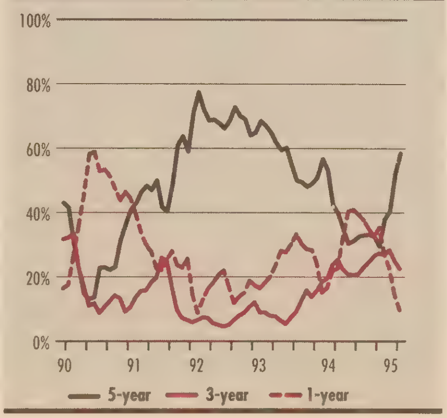
By contrast, shorter-term maturities were more popular in Quebec, Alberta and Saskatchewan, where more than

Table 1. Term Distribution of NHA Mortgage Approvals by Province
(Cumulative 1990 to June 1995, in percent)

	Less than 1 year	1 year	2 years	3 years	4 years	5 years	6 years and over	Total
Newfoundland	9.3	13.3	3.9	6.8	1.8	61.4	3.4	100.0
Prince Edward Island	6.8	8.5	3.7	5.3	2.2	70.7	2.9	100.0
Nova Scotia	7.5	8.7	3.5	7.9	2.2	67.1	3.1	100.0
New Brunswick	5.2	9.6	3.9	9.3	2.2	67.1	2.7	100.0
Quebec	6.7	23.5	4.1	18.4	1.6	44.6	1.1	100.0
Ontario	11.6	9.5	3.3	12.4	2.2	57.4	3.7	100.0
Manitoba	8.2	12.7	3.8	16.5	2.1	54.6	2.1	100.0
Saskatchewan	18.9	27.3	5.2	13.1	1.7	32.8	1.2	100.0
Alberta	16.0	15.3	4.4	15.2	2.4	44.5	2.3	100.0
British Columbia	7.9	16.3	4.8	19.1	2.8	46.5	2.5	100.0
CANADA	10.4	15.1	4.0	14.9	2.1	51.0	2.6	100.0

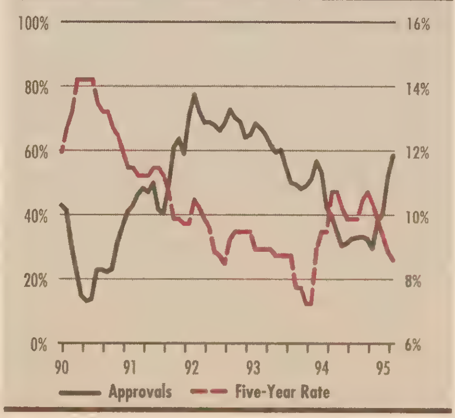
Source: CMHC. CMHC – MAC 1995

Chart 1. Mortgage Terms Selected in NHA Loan Approvals



Source: CMHC. CMHC – MAC 1995

Chart 2. Percentage of NHA Approvals with a Five-Year Term and the Five-Year Mortgage Rate



Source: CMHC. CMHC – MAC 1995

30 per cent of NHA buyers opted for mortgages of one year or less. This behaviour may reflect lower concern about risk among residents of those provinces partly due to affordable markets and, for Saskatchewan, a mature clientele with more equity.

Consumers would prefer shorter terms

Regardless of the type of mortgage homeowners currently hold, it appears most would prefer the short-term variety. This was revealed by the Financial Industry Research Monitor (FIRM) survey[1] of June 1995. Conducted every quarter, the survey asks a random sample of just over 2,000 homeowners about their finances and plans, with particular emphasis on mortgages.

The FIRM results, presented in Table 2, show that 45 per cent of owners with mortgages are locked into five years, but only 22 per cent say they would choose this term. Most owners would prefer a term of two years or less.

The discrepancy between what owners want and what they do can be explained, at least in part, by their concern for security. Although buyers are attracted by the lower cost of short terms — particularly when rates are falling — they feel safer with a longer-term loan in times of volatile or rising rates.

Table 2. Consumers' Actual and Preferred Mortgage Terms *(% by term, June 1995)*

Term	Actual	Preferred
6 months	5%	3%
1 year	10%	10%
2 years	7%	15%
3 and 4 years	18%	16%
5 years	45%	22%
More than 5 years	3%	5%
Variable	3%	5%
Open	7%	–
Not stated	7%	23%

Sources: FIRM Survey, CMHC. *CMHC – MAC 1995*

(1) Please contact Clayton Research at (416) 699-5645 for details.

HOME BUYERS' PLAN SUPPORTS HOMEOWNERSHIP

by Marc Pellerin, Senior Economist - Capital Markets

A federal government program, introduced in February 1992, that allows Canadians to use RRSP funds to purchase a home has proved an important incentive to homebuying. Between February 23, 1992 and December 31, 1994, slightly more than 270,000 consumers took advantage of Revenue Canada's Home Buyers' Plan (HB), and their activity accounted for an estimated 10.9 per cent of all new mortgage originations in Canada.

The HB program allows individuals to withdraw up to $20,000 tax free from their RRSPs for home purchase as long as they reinvest in the RRSP within 15 years.

The cumulative amount of RRSP withdrawals under the HB Plan totalled $2.7 billion from February 1992 to the end of 1994. The dollar value of the withdrawals, however, accounted for only 1.4 per cent of new loans.

The HB was highly popular in its first year, but its use has declined since then. There are two reasons for this: 1) As of March 1994 access to the program was limited to first-time buyers, whereas before it was open to everyone. 2) Housing markets slowed down in 1994 due to lack of job security and rising interest rates.

The table shows that participation in the HB has varied from province to province. Alberta has had the highest participation rate with 14.5 per cent of mortgage loans funded through RRSPs. However, for this province, as for the others, the total value of RRSP withdrawals was below 2 per cent of the total value of new mortgage loans.

Note that the percentage of participants in HB is overestimated since the participant number may include two spouses who buy only one house. This bias is not present, however, when considering the value rather than the number of loans.

Participation to Canada Home Buyers' Plan by Province – *February 23, 1992 - December 31, 1994*

	Number of Participants	Amount Withdrawn (in 000 $)	Mortgage Approvals Units	Mortgage Approvals (in 000 $)	As a % of Mortgage Approvals Number	As a % of Mortgage Approvals Dollars
Newfoundland	2,688	21,581	24,055	1,454,912	11.2	1.5
Prince Edward Island	791	6,960	6,531	376,067	12.1	1.9
Nova Scotia	6,447	53,639	69,562	4,637,740	9.3	1.2
New Brunswick	4,018	33,783	36,721	2,096,815	10.9	1.6
Quebec	51,909	485,518	528,536	30,537,060	9.8	1.3
Ontario	98,868	1,100,167	1,007,290	84,390,583	9.8	1.5
Manitoba	7,025	56,215	66,565	3,843,260	10.6	1.9
Saskatchewan	5,646	45,354	43,740	2,368,933	12.9	1.8
Alberta	36,354	335,547	250,935	18,894,179	14.5	1.3
British Columbia	55,810	591,009	438,984	45,389,920	12.7	0.9
Yukon and N.W.T.	923	4,885	5,222	530,436	17.7	–
Unknown	562	4,078	–	–	–	–
CANADA	271,041	2,738,743	2,478,141	194,519,905	10.9	1.4

Sources: Revenue Canada; CMHC. *CMHC – MAC 199*

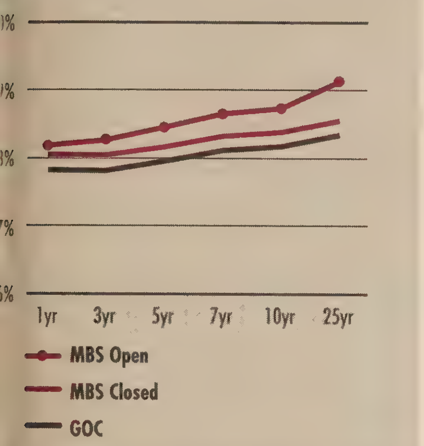
HA MORTGAGE-BACKED SECURITIES

IHA MBS GROWTH SLOWS, BUT IMPROVEMENT FORECAST

y Marc Pellerin, Senior Economist - Capital Markets

'he slowdown in housing markets caused a decline in new issues of NHA Mortgage-backed Securities MBSs) during the second quarter of 1995. But the pace is expected to improve for the rest of the year ecause of the recent drop in interest rates and a stronger demand for longer-term mortgages.

HA Mortgage-Backed Securities eld Analysis – *June 30, 1995*



rces: Nesbitt Burn; Scotia McLeod. CMHC – MAC 1995

HA Mortgage-Backed Securities Yield alysis – *Market at 15:36, July 19, 1995*

GOC description				
pon e	Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
.00%	03/97	Open	42	7.69%
.25%	02/98	Open	42	7.91%
.00%	11/98	Open	42	7.84%
.00%	11/98	Closed	19	7.61%
.50%	03/00	Open	42	8.24%
.50%	03/00	Closed	18	8.00%
.00%	12/04	Open	55	8.86%

Side
ce: Telerate; average for MBS traders. CMHC – MAC 1995

The volume of second-quarter new NHA MBSs was 35 issues at a value of $345.6 million, down from 43 pools at $409.3 million in the first three months of the year. The second-quarter activity was the lowest seen since the fourth quarter of 1988.

A number of factors have held down MBS growth during the last six months:

- The sluggish pace of mortgage lending limited the supply of new loans available for pooling. This occurred even though mortgage rates tumbled during the second quarter when the five-year rate fell from 9.88 per cent in March to 8.63 per cent at the end of June.
- The shortage of new loans available for MBSs was exacerbated by borrowers' preference for short-term mortgages. An informal CMHC survey indicates that, in April and May 1995, more than 60 per cent of borrowers favoured terms of one year or less. Usually, lenders need mortgages with terms greater than three years in order to amortize the issuance costs.
- Most importantly, issuing MBSs was uneconomical because the lenders were unable to set their three to five-year mortgage rates much above those of Government of Canada bonds (GOCs). Lenders consider a decent spread between mortgage rates and GOCs necessary to allow them to profitably issue MBSs.

For instance, the narrow spread between the five-year mortgage rate and the yield on comparable GOCs is the result of surplus liquidity at the major banks creating stiff competition to attract mortgage business. This spread was at 75 basis points at the end of July, well below the historical average of 180-200 basis points. As well, the major lenders have begun to set mortgage rates from those offered on their Guaranteed Investment Certificates (GICs), and these rates are now lower than those of the equivalent term GOCs. Contrary to the big lenders, the small mortgage lenders do rely more on MBSs in order to improve their liquidity because they do not benefit from a large branch network.

With NHA MBS growth limited, supply was weak during the second quarter of 1995 and this, along with continued healthy demand for the securities, kept the price high. As a result, the yield spread between five-year NHA MBSs and comparable GOCs was narrow.

MBS growth is expected to improve slightly during the second half of the year or at the beginning of 1996 due to several factors. First, more longer term loans should become available to be securitized in response to more mortgage lending. This will come about as housing activity improves thanks to the decline in mortgage rates. Second, the prospect of rising interest rates in 1996 will likely convince borrowers to lock into longer terms and increase the supply of five-year mortgages, the preferred term for securitization.

NHA MORTGAGE-BACKED SECURITIES

(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

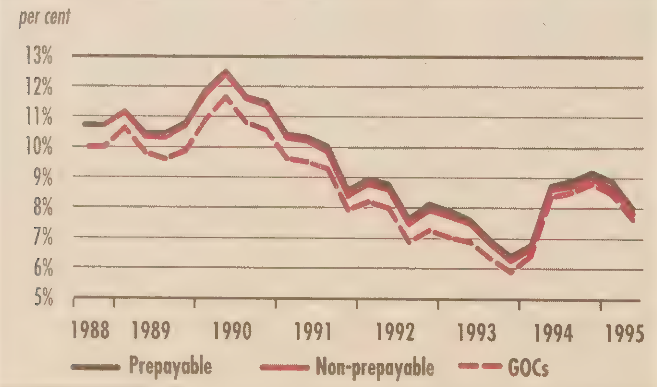
		1993	1994	1995[1]	94Q3	94Q4	95Q1	95Q
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	16,308.2	17,541.8	17,434.5	16,872.5	17,541.8	17,519.4	17,434.
	Units	1,415	1,507	1,503	1,479	1,507	1,509	1,50
Residential, single (with PIP)[2]	$million	8,623.4	8,300.9	8,024.0	8,351.3	8,300.9	8,149.8	8,024.
	Units	847	861	851	866	861	854	85
Residential, single (no PIP)	$million	0.0	610.5	666.5	330.3	610.5	640.6	666.
	Units	0	53	64	38	53	60	6
Residential, multiple	$million	553.9	864.1	923.4	766.1	864.1	877.7	923.
	Units	14	24	28	20	24	26	2
Social Housing	$million	6,886.2	7,522.1	7,593.2	7,178.3	7,522.1	7,615.5	7,593.
	Units	532	541	532	528	541	541	53
Mixed	$million	244.6	244.2	227.5	246.6	244.2	235.8	227.
	Units	22	28	28	27	28	28	2
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	6,579.8	3,719.7	754.9	640.5	1,185.2	409.3	345.
	Units	428	290	78	57	79	43	3
Residential, single (with PIP)	$million	3,410.8	1,542.9	207.3	332.1	351.1	115.2	92.
	Units	273	137	41	25	33	22	1
Residential, single (no PIP)	$million	0.0	620.2	68.8	85.9	286.0	36.0	32.
	Units	0	53	11	13	15	7	
Residential, multiple	$million	472.2	318.0	72.2	10.3	100.2	16.0	56.
	Units	10	10	4	1	4	2	
Social Housing	$million	2,652.5	1,189.6	406.6	208.6	444.0	242.1	164.
	Units	139	84	22	17	26	12	1
Mixed	$million	44.2	48.9	0	3.7	3.8	0.0	0.
	Units	6	6	0	1	1	0	
YIELDS (5-YEAR MATURITY, %)								
MBS Prepayable (with PIP)		7.21	8.40	8.46	8.90	9.19	8.90	8.0
MBS Prepayable (no PIP)		–	–	8.95	9.00	9.28	8.94	8.9
MBS Non-prepayable		7.04	8.22	8.22	8.70	8.96	8.63	7.8
MBS MMUF		7.15	8.33	8.31	8.79	9.14	8.73	7.8
MBS Hybrid		7.22	–	–	–	–	–	
Mortgage rates		8.78	9.53	9.65	10.30	10.10	10.34	8.9
GOCs		6.51	8.01	8.03	8.49	8.78	8.44	7.6
SPREADS OVER GOC (5-YEAR MATURITY, %)								
Prepayable (with PIP)		0.70	0.40	0.43	0.41	0.42	0.46	0.4
Prepayable (no PIP)		–	–	0.51	0.51	0.50	0.50	0.5
Non-prepayable		0.53	0.21	0.20	0.21	0.18	0.19	0.2
MMUF		0.63	0.32	0.29	0.30	0.37	0.29	0.2
Hybrid		0.71	–	–	–	–	–	
Mortgage Rates		2.26	1.53	1.63	1.81	1.32	1.90	1.3

(1) Cumulative (2) PIP stands for Penalty Interest Payments Not seasonally adjusted data.

Sources: Nesbitt Burns; CMHC

CMHC – MAC 1

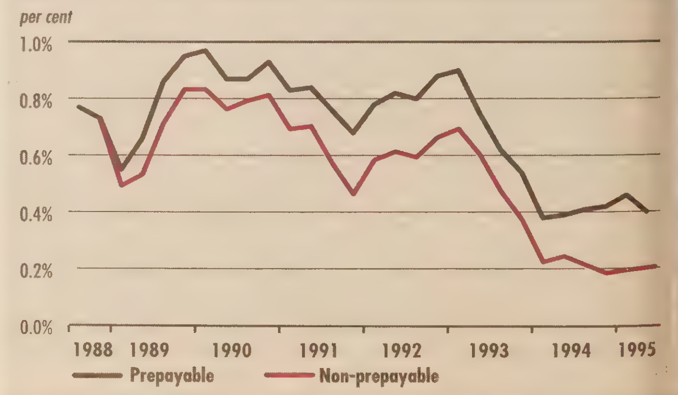
Selected Interest Rates
(5-year maturity)



Source: Nesbitt Burns.

CMHC – MAC 1995

Spreads over GOCs
(5-year maturity)

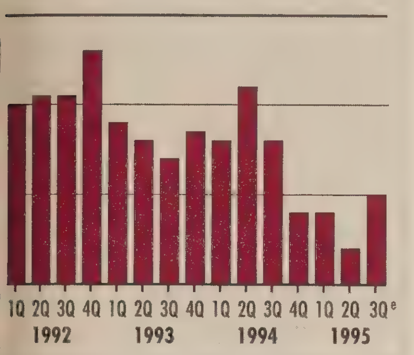


Source: Nesbitt Burns.

CMHC – MAC 1

CMHC MORTGAGE MARKET
TRENDS
ARKET ANALYSIS CENTRE
FOURTH QUARTER 1995

sidential Mortgage Credit Growth*
om previous quarter)



inal e: estimate
es: Bank of Canada; CMHC. CMHC – MAC 1995

rket Share of Residential Mortgage Credit

	3Q94	2Q95	3Q95[e]
ks	53.1%	54.2%	54.3%
sts	15.1%	14.2%	14.1%
ses & Co-op	13.9%	14.0%	14.0%
	7.0%	7.0%	7.0%
sion Funds	2.5%	2.5%	2.5%
& Loan	8.4%	8.1%	8.1%

mate
es: Bank of Canada; CMHC. CMHC – MAC 1995

NSIDE

MORTGAGE LENDING

MORTGAGE LENDING PICKS UP

by Marc Pellerin, Senior Economist - Capital Markets

As expected, mortgage lending rebounded during the third quarter of 1995. However, the sluggish activity recently observed in the housing market could slow mortgage lending again during the final three months of this year.

The outstanding value of residential mortgage loans climbed 1 per cent to $337.5 billion during the third quarter of 1995 compared to 0.4 per cent during the previous quarter. This is the best performance seen since the third quarter of 1994.

The rebound in mortgage credit growth is the result of better volumes and prices for existing homes. Multiple Listing Service (MLS)[1] transactions rose 19.8 per cent during the third quarter, while existing home prices edged up 3 per cent. Before that, house prices had been falling for three quarters in a row. The new home market, however, did not contribute to the stronger activity in mortgage lending.

The main force behind the mortgage lending recovery was the first-time homebuyer, as the market share for NHA mortgage approvals suggests. NHA insured loans accounted for about 42 per cent of total mortgage originations during the third quarter of 1995 compared to 20-22 per cent at the beginning of the 1990s.

Since the 1991 recession, the NHA's market share has been on the rise. Slow income and employment growth have limited the ability of potential first-time buyers to save up for large downpayments. As well, some move-up buyers may have used the NHA program to finance a home purchase because of their own difficulties with downpayments. The low inflation of the 1990s has limited house price gains and kept the build-up of home equity below levels seen in the 1970s and 1980s.

Prospects for further improvement in mortgage lending appear limited in the fourth quarter of 1995. Preliminary information suggests a weaker housing market for this period. Mortgage credit outstanding is expected to grow by 3.7 per cent this year. For 1996, mortgage credit should rise by 3 to 5 per cent. Slow income and employment growth will keep a lid on mortgage lending despite lower mortgage rates.

Third-quarter figures show that banks continued to gain in market share of mortgage credit at the expense of trust companies. Other lenders maintained their market share. ■

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

SERVICE DELIVERY BECOMING KEY TO ATTRACTING MORTGAGE CLIENTS

Each year, CMHC invites some lenders to discuss their expectations for the mortgage market in the coming year. In this issue, two lenders express the view that service delivery, not mortgage-rate discounts, is the key to attracting and keeping clients in the long run. They say that margins on mortgages will likely return to more normal levels as lending activity picks up in 1996. Another lender suggests that consumers who take out short-term mortgages are likely to renew for another short term.

Ray Comeau
Product Manager,
Vancouver City Savings Credit Union

Mortgage renewals: Past patterns, next year's trends

When Canadians renew their mortgages, the terms they choose may have as much to do with their past choices as with the rise or fall of interest rates.

Trends in the residential mortgage market of greater Vancouver indicate that people who take out short-term mortgages (one year or less) are likely to renew for another short term. Regardless of whether rates are stable or declining, short-term borrowers tend to roll over their loans into another short term. The same pattern can be seen when rates are on the rise.

This inertia was evident when rates bottomed at a 30-year low in January-February 1994 and short-term borrowers held tight. Some of these consumers jumped into longer terms as rates headed upwards over the rest of the year, but even then, they did not choose the longest terms available. And when rates were at a peak that year, a full 50 per cent of short-term borrowers continued to hold fast to past renewal patterns.

Long-term (five-year) borrowers have been a relatively contented lot, renewing to another long term unless rates have been falling. Mid-term (three-year) borrowers have been more sensitive to rate swings. When rates rise, these consumers are likely to either roll over their mortgages into another three-year term or go for a longer one. When rates are down, this group tends to hold the course or take a shorter term.

Two-year borrowers are an enigma. Whenever these borrowers have renewed over the last few years they opted for shorter terms regardless of the change in rates.

"...we can expect to see a continuation of renewals into short-term mortgages among west coast homeowners."

Based on renewal patterns of recent years, we can make some predictions for 1996. If rates stay close to their current levels next year, we can expect to see a continuation of renewals into short-term mortgages among west coast homeowners.

Are short mortgage terms a sign that established borrowers have become more risk oriented? Or have borrowers simply been lulled by the relatively low rates and low risks of recent years?

The five-year borrower whose mortgage is now up for renewal is leaving behind the double-digit rates of 1991 and achieving a lower rate for the same period of protection. Meanwhile, the short-term borrower has been motivated to renew short by the decline of rates since January 1995.

W.E. (Ed) Gettings
Vice-President,
CIBC Mortgage Corporation

Lenders must respond to new consumer needs

Mortgage lenders across Canada are facing their greatest challenge yet – finding ways in a declining market to meet the growing demands of an increasingly diverse and sophisticated customer base.

So far, lenders have not done enough to develop creative solutions to the problem. Over the past 18 months, they have responded through the most basic means possible – by competing with rate discounts to attract volume. This a dangerous step for the industry since it erodes the financial health of lending institutions. Moreover, the strategy fails to meet most customer needs. Consumers have concerns that cannot be addressed by discounts.

Our customers want more information about the mortgage process (in fact they want it simplified) and about the choices

ailable to them. They also want ore flexible mortgage options in der to attain the dream of debt-ee home ownership faster. And ey want all of the above elivered with good service and a way that is convenient to em.

The mortgage market is anging. Industry leaders of the ture will be those who better nderstand customers and meet eir needs with a variety of otions and services and high andards of service delivery.

avid Coulthard

ssistant Vice-President,
esidential Mortgages
nada Trust

aining market edge rough better service

ne weakness in new and resale ousing activity and the rresponding decrease in emand for mortgage credit is using financial institutions to mpete aggressively for market are. The pressure to compete is so due to the fact that financial stitutions currently have a gnificant excess of liquidity. stitutions are therefore eager to vest these funds in high-quality sidential mortgages. As a result, s a buyer's market when it mes to home-purchase nancing, and consumers stand to nefit.

One major benefit, of course, is ice. Institutions are offering tractive discounts on posted ortgage rates, and fees are also nder downward pressure. owever, historically, rates have ot been the key to what fferentiates financial institutions the mortgage market, and this olds true as institutions offer increasingly similar mortgage products. Moreover, although institutions are willing to cut rates now to acquire or keep good customers, they are unlikely to keep this up in the long run. In fact, as the outlook for credit growth improves, albeit moderately, margins on mortgages will likely begin returning to more reasonable levels.

Another way that consumers benefit in a competitive market is through better service. Given that price changes are easily matched in the industry, financial institutions are trying more and more to gain market edge by offering superior service based on sound advice and efficient processes. And with demand for their business strong, customers are in a position to demand excellent service. Experience shows that service expectations are constantly growing.

"...in the long run, service will be the dominant driver of customer relation-ships."

Since price discounting only yields short-term advantages, it is probable that, in the long run, service will be the dominant driver of customer relationships. It is likely also to be the only sustainable way that a financial institution seeking mortgage business can stand out in the crowd. ■

INDICATORS OF MORTGAGE LENDING ACTIVITY

Mortgage Credit Outstanding[1] (in millions of dollars)

	1993	1994	1995[2]	94Q4	95Q1	95Q2	95Q2[e]
TOTAL	303,913	324,502	335,325	330,750	333,513	334,945	337,516
% change	7.9	6.8	4.0	0.8	0.8	0.4	1.0
Banks	147,106	170,340	181,625	176,487	179,989	181,681	183,204
Trust Co.	63,500	50,875	47,675	49,149	48,111	47,470	47,445
Caisses & CO-OP	42,489	45,256	46,980	45,976	46,669	46,916	47,355
Life Ins. Co.	21,414	22,662	23,502	23,355	23,418	23,493	23,594
Pension Funds	8,073	8,274	8,368	8,339	8,297	8,355	8,453
Fin. & Loan	21,331	27,094	27,174	27,447	27,030	27,029	27,463

(1) Seasonally Adjusted Data (2) Cumulative (e) Estimate

Sources: Bank of Canada; CMHC. *CMHC – MAC 1995*

NHA and Conventional Loans Approved[1]

		1992	1993	1994	94Q4	95Q1	95Q2	95Q3
TOTAL	$ millions	82,935	71,665	67,433	12,850	10,576	14,371	6,372
	Units	1,047,914	893,016	803,511	159,870	133,337	173,763	78,199
NHA	$ millions	23,021	25,220	26,103	4,777	4,414	6,620	6,372
	Units	254,898	287,618	308,210	59,996	57,413	80,560	78,199
Conventional	$ millions	59,914	46,445	41,330	8,073	6,162	7,751	–
	Units	793,016	605,398	495,301	99,874	75,924	93,203	–
By Type of Lender								
Banks	$ millions	50,447	42,622	40,443	7,805	6,554	9,519	–
	Units	589,404	498,332	461,639	90,799	75,533	111,894	–
Trust Co.	$ millions	14,555	14,553	12,567	2,488	1,925	1,918	–
	Units	196,991	188,135	148,398	30,478	24,495	21,325	–
Life Ins. Co.	$ millions	5,310	4,624	4,138	793	672	934	–
	Units	90,751	78,175	64,056	13,972	10,919	13,793	–
Others	$ millions	12,623	9,866	10,285	1,764	1,425	2,000	–
	Units	170,768	128,374	129,418	24,621	22,390	26,751	–

(1) Not Seasonally Adjusted

Source: CMHC. *CMHC – MAC 1995*

Mortgage Rates (%) (Average of period)

	1993	1994	1995[1]	94Q3	94Q4	95Q1	95Q2	95Q3
1-Year Mortgage Rate	6.91	7.83	8.70	8.38	8.50	9.63	8.50	7.96
3-Year Mortgage Rate	8.10	8.99	9.06	9.84	9.75	10.04	8.67	8.46
5-Year Mortgage Rate	8.78	9.53	9.37	10.30	10.10	10.34	8.96	8.80

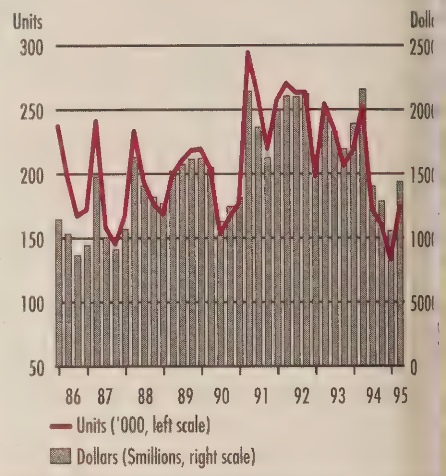
(1) Cumulative

Sources: Bank of Canada; CMHC. *CMHC – MAC 1995*

Residential Mortgage Credit Growth

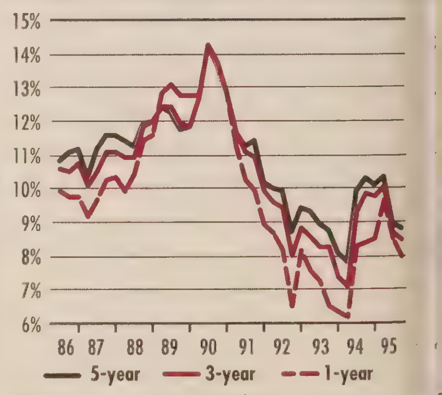
Sources: Bank of Canada; CMHC. *CMHC – MAC 19*

NHA and Conventional Approvals



Source: CMHC. *CMHC – MAC 1*

Mortgage Rates



Source: Bank of Canada. *CMHC – MAC 1*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Marc Pellerin, Senior Economist - Capital Markets, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 495-2003.

Mortgage Market Trends is a quarterly publication. To order, in Canada call 1-800-668-CMHC, fax 1-800-463-3853; outside of Canada call 1-416-282-2950, fax 1-416-282-1897, or mail your order form to:
CMHC,
P.O. Box 3077,
Markham, Ontario L3R 6G4

Annual subscription (4 issues) $44. + GST – Order No. MMTSE.
Single issue $11. + GST.
Cette publication est aussi disponible en français sous le titre SCHL – Tendances du marché hypothécaire – N° de commande : MMTSF.

ISSN 1188-42 15
Printed in Canada

CMHC offers a wide range of housing-related information. For details, contact your local CMHC office.

CMHC subscribes to Canada's Green Plan. Quantities of our publication are limited to market demand; updates are produced only when required; and recycled or recyclable stock and non-toxic inks are used whenever possible.

NHA Mortgage-Backed Securities Third Quarter Issues
July 1995 to September 1995

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: July 1995						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-411-632	SECURITY HOME MORTGAGE CORP.	5,599,281.30	7.625	July 1, 2000	8.90	23.21
96-411-640	SECURITY HOME MORTGAGE CORP.	3,414,519.41	7.250	July 1, 1998	9.13	24.22
96-411-673	HOUSEHOLD TRUST COMPANY	4,411,962.41	6.875	July 1, 1998	8.98	21.07
96-411-681	HOUSEHOLD TRUST COMPANY	5,179,329.33	7.500	July 1, 2000	9.01	23.76
96-411-699	HOUSEHOLD TRUST COMPANY	5,394,144.06	6.750	October 1, 1997	8.82	22.49
96-411-707	SECURITY HOME MORTGAGE CORP.	3,493,822.23	7.500	July 1, 2000	9.02	23.32
96-411-749	WESTMINSTER SAVINGS C.U.	3,521,492.57	7.375	July 1, 2000	9.64	22.05
96-411-772	BAYSHORE TRUST COMPANY	8,033,571.12	7.875	July 1, 2000	8.74	22.67
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-325	THE EQUITABLE TRUST COMPANY	13,003,741.78	7.625	July 1, 2000	9.11	24.16
96-600-317	SECURITY HOME MORTGAGE CORP.	5,034,985.26	7.625	July 1, 2000	9.18	24.96
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-700-646	MANUFACTURERS' LIFE INS CO.	8,382,954.18	7.750	September 1, 2000	8.62	22.95
96-700-653	MANUFACTURERS' LIFE INS CO.	5,804,835.53	7.875	September 1, 2002	8.95	24.19
96-700-661	MANUFACTURERS' LIFE INS CO.	5,238,102.02	8.125	September 1, 2005	9.87	21.41
SOCIAL HOUSING POOLS						
99-006-934	CIBC MORTGAGE CORPORATION	9,192,616.00	6.875	July 1, 1998	8.05	35.00
99-006-942	CIBC MORTGAGE CORPORATION	30,547,799.00	7.500	July 1, 2000	8.32	35.00
99-006-959	TORONTO-DOMINION BANK	3,836,960.00	7.500	July 1, 2000	8.08	35.00
MONTH OF ISSUE: August 1995						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-411-715	SECURITY HOME MORTGAGE CORP.	5,069,701.23	8.000	August 1, 2000	8.78	24.07
96-411-723	HOUSEHOLD TRUST COMPANY	4,023,677.34	6.500	June 1, 1997	8.51	22.86
96-411-756	M.R.S. TRUST COMPANY	5,023,322.19	7.250	August 1, 2000	8.52	22.32
96-411-764	HOUSEHOLD TRUST COMPANY	6,936,981.47	7.250	August 1, 2000	8.82	24.32
96-411-780	VANC. CITY SVGS. CREDIT UNION	13,647,587.35	7.125	July 1, 1998	8.87	21.53
96-411-798	VANC. CITY SVGS. CREDIT UNION	10,259,049.87	7.500	July 1, 2000	9.00	21.35
96-411-806	BAYSHORE TRUST COMPANY	4,986,182.06	6.750	February 1, 1996	8.92	19.33
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-293	SECURITY HOME MORTGAGE CORP.	4,306,076.84	8.000	August 1, 2000	8.90	23.79
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-333	PEOPLES TRUST COMPANY	39,974,714.75	7.375	August 1, 2000	8.62	24.48
96-600-341	FIRSTLINE TRUST COMPANY	21,483,742.64	7.375	August 1, 2000	8.23	28.54
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-700-679	MANUFACTURERS' LIFE INS CO.	6,059,904.60	7.625	October 1, 2000	8.55	20.91
96-700-687	MANUFACTURERS' LIFE INS CO.	4,199,768.56	8.000	October 1, 2002	8.86	24.06
SOCIAL HOUSING POOLS						
99-006-967	BANK OF MONTREAL	2,010,556.30	7.250	August 1, 2000	8.07	29.99
99-006-975	TORONTO-DOMINION BANK	7,602,808.00	7.875	August 1, 2000	8.46	35.00

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: September 1995						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-411-731	SECURITY HOME MORTGAGE CORP.	3,354,037.78	7.500	September 1, 1998	8.68	22.68
96-411-814	M.R.S. TRUST COMPANY	5,997,771.79	7.625	September 1, 2000	8.52	22.34
96-411-822	FIRST HERITAGE SAVINGS CR.UN.	3,574,271.52	7.500	September 1, 2000	8.66	22.15
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-358	THE EQUITABLE TRUST COMPANY	13,618,079.54	8.000	September 1, 2000	8.74	29.51
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-700-695	MANUFACTURERS' LIFE INS CO.	5,941,363.48	7.625	November 1, 2000	8.63	21.58
96-700-703	MANUFACTURERS' LIFE INS CO.	3,766,679.98	7.875	November 1, 2002	8.86	22.84
SOCIAL HOUSING POOLS						
99-006-991	CIBC MORTGAGE CORPORATION	16,052,220.26	7.625	September 1, 2000	8.36	30.13
99-007-007	TORONTO-DOMINION BANK	25,846,315.00	7.500	September 1, 2000	8.06	35.00
99-007-015	CIBC MORTGAGE CORPORATION	5,895,043.00	7.500	September 1, 2000	8.34	35.00
99-007-023	BANK OF NOVA SCOTIA	16,438,219.00	7.125	September 1, 2000	8.44	35.00

STRATEGIES FOR MORTGAGE TERM SELECTION

by Mary McDonough, Principal, McDonough Research Associates

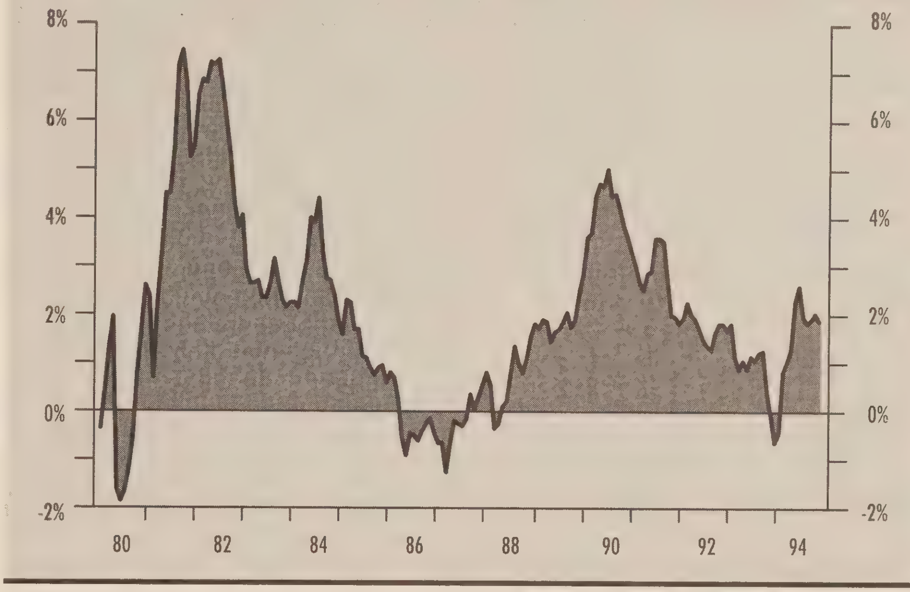
Since the widespread introduction of short-term mortgage instruments in the early 1980s, homeowners have been faced with an important decision at the time of purchase or mortgage renewal. Which term to select? This article analyzes the cost effectiveness of different mortgage term options during the period 1980-1994. It finds that, for 85 per cent of that period, one-year terms would have been the best financial choice. However, against the lower cost of the one-year term, homeowners would have had to weigh the added risk. In times of major interest-rate volatility, householders may prefer the security of locking into a longer term.

On a cost basis, the best selection strategy is one which minimizes the homeowner's interest payments over the life of the mortgage. The "mortgage borrower's lock-in premium" is a measure of what the interest rate differential between five-and one-year terms would have been if a homeowner had chosen a five-year term instead of renewing every year for five years at the prevailing one-year rate. The higher the lock-in premium, the greater the cost of choosing five-year terms. Chart 1 illustrates the lock-in premium between 1980-1994.

In the 1985-1989 period, the lock-in premium averaged 67 basis points (representing an average interest cost of $3,058). It increased to 223 basis points between 1990-1994 (average interest cost of $9,253). Note that calculations for 1992-1994 are based only on rate differentials to date.

Chart 1 is a clear illustration that homeowners would have been better off financially by choosing one-year terms over the past 15 years. However, they also would have faced the risk of a jump in mortgage payments if interest rates had risen unexpectedly. The security of the longer term is the tradeoff against the lower cost of the shorter term.

Chart 1. Mortage Borrower's Lock-in Premium



Source: CMHC.

CMHC – MAC 1995

Table 1. The Mortgage Yield Curve & Lock-in Premium* 1980-1994

Time Period:	Inverted or Flat Yield Curve**	Upward Sloping Yield Curve***
1980-1984	25 Occurrences (# of months)	35 Occurences (# of Months)
1985-1989	23 Occurrences (# of months)	37 Occurrences (# of Months)
1990-1994	16 Occurrences (# of months)	44 Occurences (# of Months)
1980-1984	3.22% Lock-in Premium	3.29% Lock-in Premium
1985-1989	1.26% Lock-in Premium	0.32% Lock-in Premium
1990-1994	3.69% Lock-in Premium	1.66% Lock-in Premium

* As calculated based on historical data - the interest rate differential representing the cost of choosing a five-year term mortgage over a one-year term mortgage.

** Inverted Yield Curve: where 5-year closed mortage rate - 1-year closed mortgage rate <0 basis points
Flat Yield Curve: where 5-year closed mortgage rate - 1-year closed mortage rate >0 & <75 basis points

*** Upward Sloping Yield Curve: where 5-year closed mortage rate - 1-year closed mortgage rate >75 basis points

Basis point: = 1/100 of one percent age point

Another way to determine the best selection strategy is to look at how much one-year rates fluctuated in the past and how much risk the hypothetical homeowner opting for one-year terms was assuming. Chart 2 illustrates the degree of volatility in one-year mortgage rates over the 1980-1994 period. On average, the "volatility gap" (the difference between the highest and lowest one-year mortgage over five years for each month) measured just over 3 percentage points between 1990-1994 and 4.5 percentage points between 1980-1994.

Also evident from Chart 1 is that the size of the lock-in premium can vary widely. Broad economic factors, including the business cycle and prevailing monetary policy, that impact on the direction and level of interest rates can determine the size of the lock-in premium.

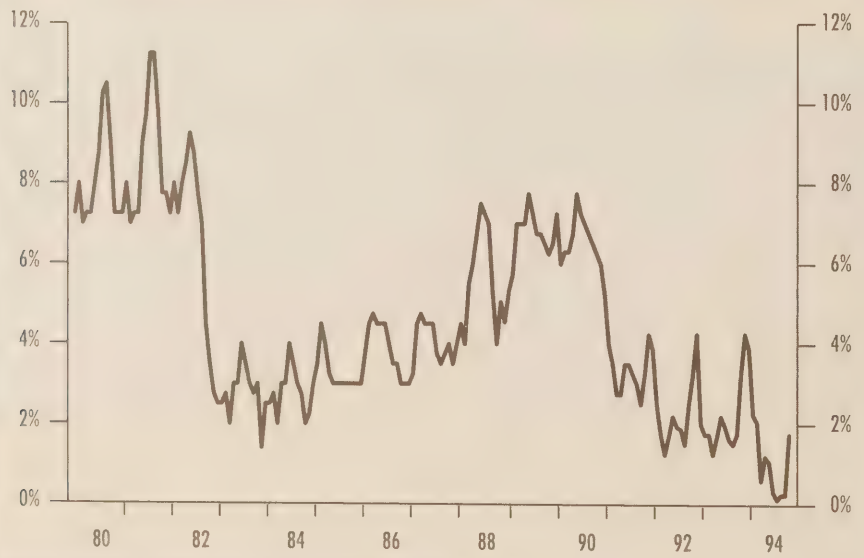
Changes in interest rates are, in turn, evident in the yield curve, which itself is a measure of the difference between long-term and short-term interest rates. The slope of the yield curve conveys information about the economy.

An **upward** sloping curve is generally associated with a period of low inflation and steady economic growth – the difference between long- and short-term rates should reflect only the risk premium. A **flat** yield curve, with little difference between long- and short-term rates, can signal a transition to tighter monetary policy. It means that short-term rates are being hiked at a faster pace than long-term rates in order to rein in the economy. An **inverted** yield curve means short-term rates are higher than long-term rates and usually precedes either a recession or an economic slowdown.

The five-year term was the least advantageous to borrowers in periods when the yield curve was either inverted or very flat. However, periods of inversion are not prolonged. The recession they foreshadow leads to easier monetary policy and ultimately lower rates, with short-term rates generally falling more quickly than long-term rates.

For similar reasons, when the mortgage yield curve was flat (a difference of between 0-75 basis points), homeowners were better off, on average, with the one-year term. The five-year term was most beneficial when the yield curve sloped upwards, signaling periods of more prolonged rate stability.

Chart 2. Volatility of One-Year Term Strategy



Source: CMHC

CMHC – MAC 1995

"If past trends in interest rates prevail... the most advantageous mortgage term for the borrowers who can well tolerate interest rate volatility is most likely to be the one-year term. However... for security of mortgage payment, and for those with a high mortgage debt relative to their income, the five-year term will likely be the preferred option."

This information can help homeowners determine the most appropriate mortgage term strategy. For borrowers who can tolerate temporary spikes in interest rates, the one year term proved to be the lowest cost option 85 per cent of the time since 1980. The only times this wasn't so was when mortgage borrowers had the opportunity to lock into the five-year rate near the bottom of the interest rate cycle.

If past trends in interest rates prevail to the extent that changes in the yield curve signal changes in underlying economic conditions, the most advantageous mortgage term for the borrowers who can well tolerate interest rate volatility is most likely to be the one-year term. However, for mortgage borrowers who are willing to pay the additional interest rate premium in exchange for security of mortgage payment, and for those with a high mortgage debt relative to their income, the five-year term will likely be the preferred option. ■

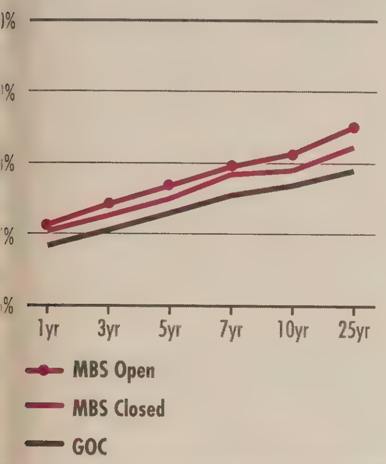
NHA MORTGAGE-BACKED SECURITIES

ISSUES OF NHA MBSs ON THE RISE

y Marc Pellerin, Senior Economist - Capital Markets

New issues of NHA Mortgage-Backed Securities (MBSs) increased during the third quarter for he first time since the beginning of 1995. The rise was partially thanks to higher mortgage ending activity and the fact that more borrowers selected five-year terms.

HA Mortgage-Backed Securities ield Analysis – *September 30, 1995*



rces: Nesbitt Burns. CMHC – MAC 1995

HA Mortgage-Backed Securities Yield nalysis – *Market at 13:34, October 24, 1995*

GOC description				
upon te	Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
50%	07/97	Open	40	7.62%
00%	11/98	Open	40	7.84%
5%	09/99	Open	40	7.96%
5%	09/99	Closed	18	7.74%
50%	03/00	Open	42	8.08%
5%	12/05	Open	44	8.37%
5%	12/05	Closed	20	8.13%

l Side
rce: Telerate; average for MBS traders. CMHC – MAC 1995

The third quarter of 1995 saw 40 new pools of NHA MBSs issued at a value of $356.2 million, up from 36 pools at $345.6 million in the previous quarter. Part of the increase in new issues was in residential pools, which totalled $141.3 million during the third quarter compared to $124.9 in the second. New issues in multiple unit pools and in mixed pools also increased. The value of new social housing pools issued dropped to $117.4 million from $164.5 million during the same period.

Despite some pick-up in mortgage lending, growth of new issues has been limited because of the following factors:

- Generally, lenders prefer to create MBSs with terms of five years or more in order to cover issuance costs. But borrowers have shied away from five-year mortgages. The temporary rise in mortgage rates to 8.95 per cent from 8.50 per cent at the end of July had convinced some consumers to lock in for five years, according to an informal survey conducted by CMHC. But most borrowers returned to short-term loans when rates started dropping in September. Mortgagors tend to select short-term loans when they believe that rates will fall. They lock in for longer terms when they think that rates have bottomed out and are on a rising trend.
- Issuers have been reluctant to create new pools because profitability is low. During the third quarter of 1995, the five-year mortgage rate stood at only 126 basis points above the yield of Government of Canada Bonds (GOCs) with the same maturity. This is well below the historical spread of 180-200 basis points.
- Profitability is curtailed further because, to gain market share, few lenders now lend at posted rates. Again, an informal CMHC survey indicates that mortgage discounting of 50 to 75 basis points was common practice in large urban areas during the third quarter. A year earlier, discounts of only 25 basis points were being offered.

The combination of a low supply of new NHA MBSs along with strong demand for them drove prices up and therefore narrowed the yield spread between MBSs and GOCs during the third quarter of 1995. Yield spreads between MBSs and GOCs are among the tightest ever seen since the inception of the program in 1987. For five-year non-prepayable MBSs and GOCs, the differential dropped to 19 basis points during the second quarter of 1995. This compares with an of 32 basis points since 1993. The yield on prepayable five-year MBSs was 38 basis points higher than GOCs in the third quarter. This compares with an average spread of 51 basis points since 1993. ■

NHA MORTGAGE-BACKED SECURITIES

(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

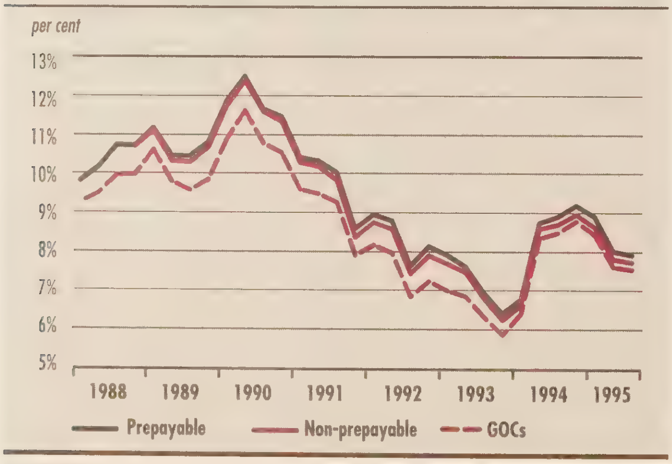
		1993	1994	1995[1]	94Q4	95Q1	95Q2	95Q
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	16,308.2	17,541.8	17,227.6	17,541.8	17,519.4	17,434.5	17,227.
	Units	1,415	1,507	1,503	1,507	1,509	1.503	1,50
Residential, single (with PIP)[2]	$million	8,623.4	8,300.9	7,837.7	8,300.9	8,149.8	8,024.0	7,837.
	Units	847	861	849	861	854	851	84
Residential, single (no PIP)	$million	0.0	610.5	693.9	610.5	640.6	666.5	693.
	Units	0	53	71	53	60	64	7
Residential, multiple	$million	553.9	864.1	1,006.2	864.1	877.7	923.4	1,006.
	Units	14	24	33	24	26	28	3
Social Housing	$million	6,886.2	7,522.1	7,474.8	7,522.1	7,615.5	7,593.2	7,474.
	Units	532	541	522	541	541	532	52
Mixed	$million	244.6	244.2	215.0	244.2	235.8	227.5	215.
	Units	22	28	28	28	28	28	2
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	6,579.8	3,719.7	1,111.1	1,185.2	409.3	345.6	356.
	Units	428	290	119	79	43	36	4
Residential, single (with PIP)	$million	3,410.8	1,542.9	309.2	351.1	115.2	92.1	101.
	Units	273	137	60	33	22	20	1
Residential, single (no PIP)	$million	0.0	620.2	108.2	286.0	36.0	32.8	39.
	Units	0	53	18	15	7	4	
Residential, multiple	$million	472.2	318.0	165.3	100.2	16.0	56.2	93
	Units	10	10	9	4	2	2	
Social Housing	$million	2,652.5	1,189.6	524.0	444.0	242.1	164.5	117
	Units	139	84	31	26	12	10	
Mixed	$million	44.2	48.9	4.3	3.8	0.0	0.0	4
	Units	6	6	1	1	0	0	
YIELDS (5-YEAR MATURITY, %)								
MBS Prepayable (with PIP)		7.21	8.40	8.28	9.19	8.90	8.01	7.9
MBS Prepayable (no PIP)		–	–	8.34	9.28	8.94	8.07	8.0
MBS Non-prepayable		7.04	8.22	8.06	8.96	8.63	7.81	7.7
MBS MMUF		7.15	8.33	8.14	9.14	8.73	7.89	7.8
Mortgage rates		8.78	9.53	9.37	10.10	10.34	8.96	8.8
GOCs		6.51	8.01	7.86	8.78	8.44	7.61	7.5
SPREADS OVER GOC (5-YEAR MATURITY, %)								
Prepayable (with PIP)		0.70	0.40	0.41	0.42	0.46	0.40	0.
Prepayable (no PIP)		–	–	0.48	0.50	0.50	0.46	0.4
Non-prepayable		0.53	0.21	0.19	0.18	0.19	0.20	0.
MMUF		0.63	0.32	0.28	0.37	0.29	0.28	0.
Mortgage Rates		2.26	1.53	1.51	1.32	1.90	1.36	1.

(1) Cumulative (2) PIP stands for Penalty Interest Payments Not seasonally adjusted data.

Sources: Nesbitt Burns; CMHC

CMHC – MAC 1

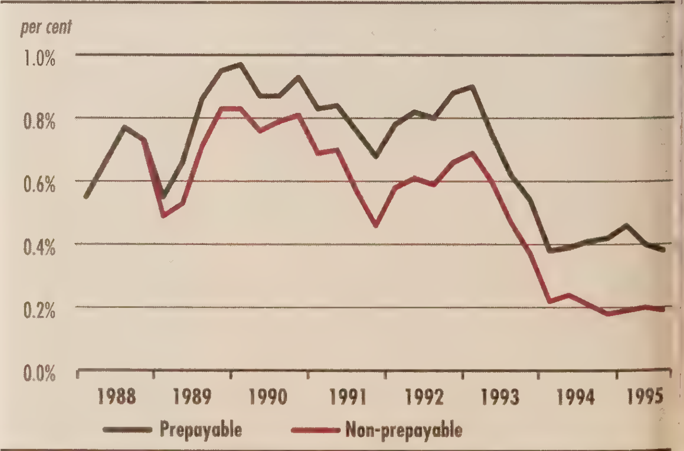
Selected Interest Rates
(5-year maturity)



Source: Nesbitt Burns.

CMHC – MAC 1995

Spreads over GOCs
(5-year maturity)

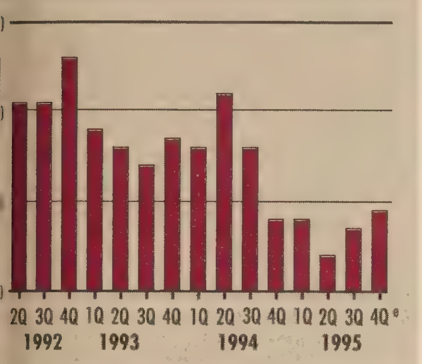


Source: Nesbitt Burns.

CMHC – MAC

CMHC MORTGAGE MARKET
TRENDS
MARKET ANALYSIS CENTRE
FIRST QUARTER 1996

esidential Mortgage Credit Growth*
om previous quarter)



minal e: estimate
ces: Bank of Canada; CMHC. CMHC–MAC 1996

arket Share of Residential Mortgage Credit

	4Q94	3Q95	4Q95e
nks	53.4%	54.4%	54.8%
sts	14.9%	14.1%	13.7%
sses & Co-op	13.9%	14.0%	14.1%
	7.1%	7.0%	6.9%
sion Funds	2.5%	2.4%	2.4%
& Loan	8.3%	8.1%	8.1%

imate
ces: Bank of Canada; CMHC. CMHC–MAC 1996

NSIDE

MORTGAGE LENDING

MORTGAGE LENDING ACTIVITY MOVES TO HIGHER GEAR

by Marc Pellerin, Senior Economist - Capital Markets

Declining mortgage rates helped mortgage lending activity during the fourth quarter of 1995. For 1996, mortgage lending is expected to grow 3 to 5 per cent. Consumers will remain prudent despite lower mortgage rates.

The outstanding value of residential mortgage credit climbed 0.9 per cent, to $340.1 billion during the fourth quarter of 1995. This compares with 0.7 per cent during the third quarter. The growth in residential mortgage credit remained below 1 per cent for each quarter in 1995.

A stronger market for new houses contributed to increase mortgage lending activity during the fourth quarter of 1995. There were 111,100 housing starts during the final three months of 1995 after 104,700 units during the previous quarter. Declining mortgage rates helped to bolster housing construction.

The value of mortgage lending would have been higher if not for lower prices and the weaker market for existing homes. MLS[1] sales slipped 11.3 per cent during the fourth quarter. However, this drop in MLS sales followed a sharp rise of 19 per cent in sales between July and September. Despite lower mortgage rates, consumers remain wary. This is reflected in a 10 per cent fall in the consumer confidence index of the Conference Board of Canada during the final quarter of 1995. The index fell to its lowest level since the 1991 recession.

For 1996, the outstanding value of residential mortgage credit should expand by 3 to 5 per cent. Despite lower mortgage rates, several factors will contribute to hold down housing activity and therefore mortgage lending. First, consumers will remain cautious in response to continuing government and private sector cutbacks. Second, population is growing more slowly, especially in the crucial young adult population, thereby reducing the growth in housing requirements. (See current edition of National Housing Outlook for more details.)

In 1996, larger volumes in mortgage lending activity will come primarily from the existing housing market, with MLS sales forecast to be up 7.5 per cent while housing starts are expected to remain at 1995 levels. In the new housing market, lower activity in multi-family housing will offset gains in the market for single-detached houses. Mortgage lending should recover, primarily in Ontario, Quebec, and Manitoba. Slower economic growth is expected to dampen mortgage lending in British Columbia. Mortgage credit growth should remain subdued in Atlantic Canada. ■

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

LONG-TERM MORTGAGES – WHAT'S OLD IS NEW AGAIN!

by Mary McDonough - Principal, McDonough Research Associates

As mortgage rates approach 30-year record lows, some borrowers have inquired about longer terms. This article examines the key reasons for this development.

Five years has been the definitive term for loans for more than a century. The Orton Act of 1880 (in force under the Canada Interest Act in the same year) stipulated that, for any loan whose original term was greater than five years, a borrower could pay the entire principal amount of the outstanding balance at the end of the fifth year as long as a three-month interest penalty was paid in lieu of notice.

In spite of prepayment risks for the lenders, 25-year mortgages were common in Canada until the late 1960s. Indeed, as in the US, the length of the term was almost equal to the amortization period of a mortgage. A major reason for this was that the largest suppliers of the mortgage funds were life insurance companies. They preferred 25-year-term mortgages as a match against their long-term liabilities, life insurance policies.

Under the Terms Equals Amortization plan of the National Housing Act (NHA), the term of single family mortgages was usually between 25 and 35 years - equal to the amortization period. On some types of properties, the term was as long as 40 years.

Economic and institutional changes bring shorter terms

By the late 1960s, however, a number of legislative changes affected financial institutions and the five-year mortgage emerged as the predominant term.

One of the most significant changes was the emergence of chartered banks as conventional mortgage lenders. Unlike life insurance companies, chartered banks, trust companies and mortgage loan companies funded mortgages through shorter term Guaranteed Investment Certificates and debentures. Lenders practising a term-matching strategy thus funded five-year term mortgages with equivalent term deposits. This became increasingly important as mortgage rates began to rise sharply in 1969 after many years of stability.

Before key changes to the Bank Act in 1967, chartered banks could make mortgage loans only on newly constructed NHA-insured properties; afterward, they were allowed to make conventional mortgage loans on both new and existing properties. In 1969, NHA regulations were revised to permit loans, at the lender's option, for a minimum term of five years.

Market conditions in the late 1970s set the stage for further evolution: accelerated inflation; a flexible exchange rate, which exposed mortgage borrowers to much greater interest rate uncertainty; and substantially higher nominal rates.

By the early 1980s, most mortgage lenders offered a full spectrum of terms ranging from six months to five years. Some lenders also introduced versions of a variable-rate mortgage, in which rates changed frequently but payments remained equal. Indeed, as mortgage rates reached their peak in 1981 and 1982, some lenders even discontinued offering five-year terms.

continued on page

Key Dates in Mortgage Term Trends

Date	Event	Description
1880	Orton Act	Intended to protect borrowers. Stipulated that all mortgages to individuals would be open after the fifth year but subject to a three-month penalty. Incorporated into the Canada Interest Act in the same year, it institutionalized prepayment risk for mortgages longer than five years.
1954	NHA revisions	Allowed banks to make mortgage loans on newly constructed NHA-insured dwellings.
1967	Bank Act revisions	Removed interest ceilings on bank loans. (In the 1960s, banks were not allowed to charge more than 6 per cent on mortgage loans. They were not active lenders because the NHA rate at that time exceeded 6 per cent. Chartered banks were allowed to offer conventional mortgage loans for both new and existing housing.)
1969	NHA amendments	Lenders were permitted to issue five-year NHA-insured mortgages. (Mortgage terms had been restricted to between 25 and 40 years; the term of a mortgage loan always equalled the amortization period.)
1980s	Short-term mortgages	One- and three-year mortgages introduced; followed by a full spectrum of terms.
1988	10-year term	Introduced by Firstline Trust.
1989	25-year term	Reintroduced by Firstline Trust.
1990	7-year term	Introduced by Firstline Trust.

:eturn of longer ıortgage terms

The high inflation and volatile ıarkets of the early 1980s have given ʼay to an environment of low and table inflation. Nominal interest rates re at their lowest levels since the 960s. In 1989, Firstline Trust ıtroduced a 25-year-term mortgage. Vhile few major lenders have ıllowed suit, most now offer ıortgage terms of seven and ten ears.

Several factors underlie the recent mergence of longer term mortgages. ɔne was the introduction in 1986 of ıe NHA Mortgage-Backed Securities rogram by the federal government ırough CMHC. It aimed to bring reater choice in the length of ıortgage terms for the ultimate enefit of Canadian home owners.

Market forces have also changed. ɔn the supply side, mortgage lenders ave used increasingly sophisticated nancing techniques to offset risk, in articular that of early prepayment y borrowers.

On the demand side, borrowers ave been attracted by the low rates ow offered on these terms. For xample, a seven-year mortgage now ands around 50 basis points higher ıan the posted five-year rate. The ıajor benefit for home owners now ıoosing mortgages of seven, ten and ven twenty-five years is that they are ɔle to secure their payments at low ıterest rates for a very long period.

Longer term mortgages are as exible as five-year terms. They are ortable (meaning that home owners ın take mortgages with them when ıey move) and repayment provisions re the same. Like five-year ıortgages, they are subject to a three-ıonth interest penalty should a orrower decide to pay the mortgage ı full or in part at the end of the fifth ear.

According to some lenders, orrowers weigh the benefits of payment stability and the opportunity to lock into longer terms against a general concern about their future plans and whether they will continue to reside in the same property for a long time.

It is apparent, however, as interest rates are approaching a cyclical low, that borrowers will be tempted by longer term mortgages. An informal survey conducted by the Market Analysis Centre confirms that more new loans were for five-year terms in the first two months of 1996 than in the same period in 1995. Renewals for five-year terms were also up for the first two months of 1996. ■

INDICATORS OF MORTGAGE LENDING ACTIVITY

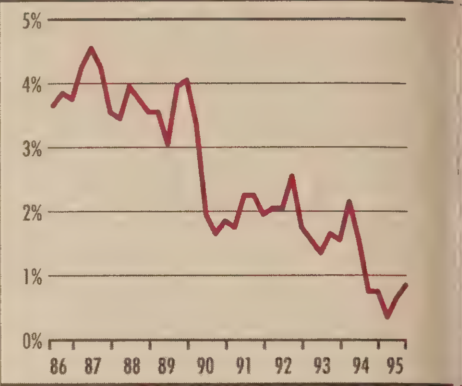
Mortgage Credit Outstanding[1] (in millions of dollars)

	1993	1994	1995	95Q1	95Q2	95Q3	95Q4[e]
TOTAL	303,913	324,509	336,415	333,513	334,888	337,096	340,164
% change	7.9	6.8	3.7	0.8	0.4	0.7	0.9
Banks	147,123	170,365	182,860	180,005	181,698	183,221	186,515
Trust Co.	63,483	50,858	47,372	48,094	47,421	47,511	46,461
Caisses & CO-OP	42,489	45,256	47,179	46,669	46,920	47,323	47,805
Life Ins. Co.	21,414	22,662	23,531	23,418	23,631	23,525	23,550
Pension Funds	8,073	8,274	8,242	8,297	8,232	8,212	8,226
Fin. & Loan	21,331	27,094	27,232	27,030	26,986	27,305	27,607

(1) Seasonally Adjusted Data (e) Estimate

Sources: Bank of Canada; CMHC. *CMHC – MAC 1996*

Residential Mortgage Credit Growth



Sources: Bank of Canada; CMHC. *CMHC – MAC 199*

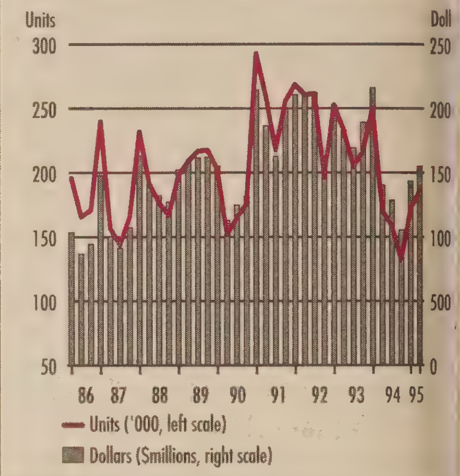
NHA and Conventional Loans Approved[1]

		1993	1994	1995	95Q1	95Q2	95Q3	95Q4
TOTAL	$ millions	71,665	67,433	–	10,525	14,335	15,482	–
	Units	893,016	803,511	–	132,608	173,404	187,050	–
NHA	$ millions	25,220	26,103	22,219	4,363	6,584	6,334	4,938
	Units	287,618	308,210	277,205	56,684	80,201	77,798	62,522
Conventional	$ millions	46,445	41,330	–	6,162	7,751	9,148	–
	Units	605,398	495,301	–	75,924	93,203	109,252	–
By Type of Lender								
Banks	$ millions	42,622	40,443	–	6,554	9,519	10,433	–
	Units	498,332	461,639	–	75,533	111,894	118,232	–
Trust Co.	$ millions	14,553	12,567	–	1,925	1,918	1,862	–
	Units	188,135	148,398	–	24,495	21,325	21,954	–
Life Ins. Co.	$ millions	4,624	4,138	–	672	934	821	–
	Units	78,175	64,056	–	10,919	13,793	16,138	–
Others	$ millions	9,866	10,285	–	1,425	2,000	2,404	–
	Units	128,374	129,418	–	22,390	26,751	31,127	–

(1) Not Seasonally Adjusted

Source: CMHC. *CMHC – MAC 1996*

NHA and Conventional Approvals



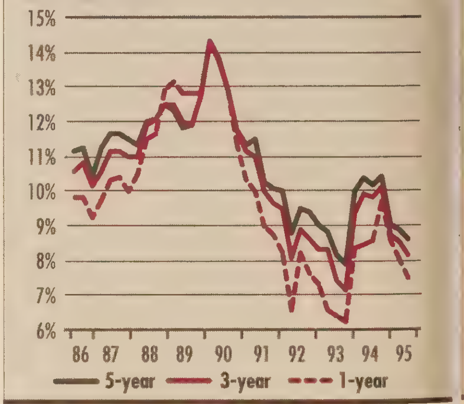
Source: CMHC. *CMHC – MAC 19*

Mortgage Rates (%) (Average of period)

	1993	1994	1995	94Q4	95Q1	95Q2	95Q3	95Q4
1-Year Mortgage Rate	6.91	7.83	8.38	8.50	9.63	8.50	7.96	7.42
3-Year Mortgage Rate	8.10	8.99	8.81	9.75	10.04	8.67	8.46	8.08
5-Year Mortgage Rate	8.78	9.53	9.16	10.10	10.34	8.96	8.80	8.53

Sources: Bank of Canada; CMHC. *CMHC – MAC 1996*

Mortgage Rates



Source: Bank of Canada. *CMHC – MAC 19*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Gilles Proulx, Chief Economist, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2574.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 495-2003.

Mortgage Market Trends is a quarterly publication. To order, in Canada call 1-800-668-CMHC, fax 1-800-463-3853; outside of Canada call 1-416-282-2950, fax 1-416-282-1897, or mail your order form to:
CMHC,
P.O. Box 3077,
Markham, Ontario L3R 6G4

Annual subscription (4 issues) $44. + GST – Order No. MMTSE.
Single issue $11. + GST.
Cette publication est aussi disponible en français sous le titre SCHL – Tendances du marché hypothécaire – Nº de commande : MMTSF.

ISSN 1188-4215
Printed in Canada

CMHC offers a wide range of housing-related information. For details, contact your local CMHC office.

NHA Mortgage-Backed Securities Fourth Quarter Issues
October 1995 to December 1995

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: October 1995						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-411-863	WESTMINSTER SAVINGS C.U.	6,358,077.06	7.625	October 1, 2000	8.60	20.81
96-411-830	VANCOUVER CITY SAVINGS C.U.	24,070,940.11	7.250	September 1, 2000	8.32	21.48
96-411-848	M.R.S. TRUST COMPANY	4,991,006.16	7.500	October 1, 2000	8.55	23.01
96-411-855	FIRST HERITAGE SAVINGS CR. UN.	6,420,902.92	7.500	October 1, 2000	8.34	21.72
96-411-871	MUTUAL TRUST COMPANY	13,825,956.50	7.250	September 1, 2000	8.18	21.28
96-411-889	M.R.S. TRUST COMPANY	2,008,194.17	7.125	October 1, 1998	8.36	23.05
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-319	THE EQUITABLE TRUST COMPANY	2,980,243.00	7,750	October 1, 2000	8.67	30.00
96-500-301	SECURITY HOME MORTGAGE CORP.	5,094,233.99	7.500	October 1, 2000	8.90	23.70
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-366	PEOPLES TRUST COMPANY	35,408,720.34	7.375	October 1, 2000	8.58	25.31
96-600-382	THE EQUITABLE TRUST COMPANY	14,837,159.73	7.750	October 1, 2000	8.75	27.09
96-600-408	MANUFACTURERS' LIFE INS CO.	25,773,271.10	7.375	October 1, 2000	8.60	27.99
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-700-711	FIRSTLINE TRUST COMPANY	2,004,463.65	7.500	December 1, 2000	8.65	12.02
96-700-729	FIRSTLINE TRUST COMPANY	6,270,900.45	7.500	December 1, 2000	8.72	20.48
96-700-737	FIRSTLINE TRUST COMPANY	3,214,197.68	7.750	December 1, 2005	9.30	22.49
96-700-745	FIRSTLINE TRUST COMPANY	4,853,941.63	7.500	December 1, 2002	8.94	24.27
SOCIAL HOUSING POOLS						
99-006-983	TORONTO-DOMINION BANK	30,012,512.00	7.625	October 1, 2000	8.21	31.20
99-007-031	NATIONAL BANK OF CANADA	6,536,280.36	7.500	October 1, 2000	8.04	28.67
99-007-049	THE EQUITABLE TRUST COMPANY	3,057,944.83	7.625	July 1, 2000	8.50	14.72
99-007-056	TORONTO-DOMINION BANK	26,341,689.00	7.250	October 1, 2000	8.21	33.24
99-007-064	TORONTO-DOMINION BANK	8,198,635.37	7.625	October 1, 2000	8.21	32.50
99-007-072	TORONTO-DOMINION BANK	2,491,043.00	7.250	October 1, 2000	7.78	35.00
MONTH OF ISSUE: November 1995						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-411-897	TORONTO-DOMINION BANK	4,549,934.55	8.000	July 1, 2004	9.02	18.89
96-411-905	M.R.S. TRUST COMPANY	7,512,306.43	7.250	November 1, 2000	8.64	22.49
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-416	THE EQUITABLE TRUST COMPANY	12,361,900.00	7.250	November 1, 2000	8.05	30.00
96-600-424	FIRSTLINE TRUST COMPANY	21,761,847.69	7.250	November 1, 2000	8.25	26.59
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-700-760	FIRSTLINE TRUST COMPANY	2,916,053.60	7.500	January 1, 2003	8.73	24.65
96-700-752	FIRSTLINE TRUST COMPANY	2,161,215.11	7.125	November 1, 2000	8.57	21.70
96-700-778	FIRSTLINE TRUST COMPANY	3,562,703.60	7.625	January 1, 2006	8.89	22.64

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: December 1995						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-411-931	VANCOUVER CITY SAVING C.U.	27,202,276.22	7.000	November 1, 1998	8.14	21.41
96-411-921	FIRST HERITAGE SAVINGS CR.UN.	5,097,324.60	6.875	December 1, 2000	8.48	22.64
96-411-939	FIRST HERITAGE SAVINGS CR.UN.	4,230,853.60	6.625	December 1, 1998	8.12	23.25
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-390	THE EQUITABLE TRUST COMPANY	16,649,736.07	7.750	December 1, 2005	8.62	23.96
96-600-432	PEOPLES TRUST COMPANY	28,601,861.14	6.875	December 1, 2000	8.01	26.31
96-600-440	THE EQUITABLE TRUST COMPANY	9,989,097.22	7.000	December 1, 2000	8.46	21.74
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-700-786	FIRSTLINE TRUST COMPANY	3,419,232.92	7.250	February 1, 2003	8.59	22.90
96-700-794	FIRSTLINE TRUST COMPANY	5,293,134.97	7.500	February 1, 2006	8.86	21.62
SOCIAL HOUSING POOLS						
99-007-080	BANK OF MONTREAL	12,730,071.76	6.500	December 1, 2000	7.48	30.10
99-007-098	BANK OF MONTREAL	8,388,233.13	6.500	December 1, 2000	7.49	31.06
99-007-114	TORONTO-DOMINION BANK	3,070,159.00	6.875	December 1, 2000	7.41	35.00
99-007-106	CIBC MORTGAGE CORPORATION	7,269,981.54	6.500	November 1, 1998	7.42	34.92
99-007-122	CIBC MORTGAGE CORPORATION	2,540,000.00	6.000	March 1, 1999	6.94	28.25
99-007-130	TORONTO-DOMINION BANK	22,121,571.00	6.750	December 1, 2000	7.25	35.00

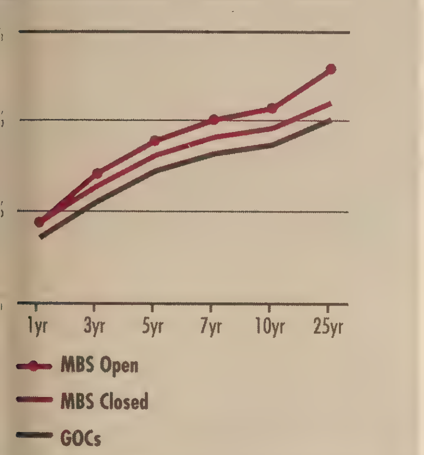
HA MORTGAGE-BACKED SECURITIES

PACE OF NEW NHA MBS ISSUES SLOWER

y Marc Pellerin, Senior Economist - Capital Markets

he year 1995 ended on an upturn for NHA Mortgage-Backed Securities (MBS). For all of 1995, owever, new issues slipped to $1,557.3 million, compared with $3,719.7 million in 1994 and the all-me record of $6,579.8 million in 1993. The demand for NHA MBS remained strong throughout 995, but new issues were limited by sluggish mortgage lending and by narrow spreads between ortgage rates and GOC yields. The shift toward longer term mortgages by consumers should vour new issues in 1996.

HA Mortgage-Backed Securities eld Analysis – *December 31, 1995*



ce: Nesbitt Burns. CMHC – MAC 1996

HA Mortgage-Backed Securities Yield alysis – *Market at 15:53, February 13, 1996*

GOC description pon e	Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
0%	07/97	Open	34	5.53%
0%	11/98	Open	34	5.86%
5%	09/99	Open	34	6.14%
5%	09/99	Closed	17	5.97%
0%	03/00	Open	35	6.57%
5%	12/05	Open	41	7.28%
5%	12/05	Closed	18	7.05%

Side
ce: Telerate; average for MBS traders. CMHC – MAC 1996

Issues were on the rise in almost all categories of pools during the fourth quarter because of a slight improvement in mortgage lending. For 1995, however, new issues slipped to $1,557.3 million, compared to $3,719.7 million in 1994 and the all-time record of $6,579.8 million in 1993.

Factors that held down new issues in 1994 continued to be at play in 1995. First, there were fewer small lenders, mainly trust companies. These have been among the most active issuers (mainly for open pools) over the past years.

Second, it was less profitable to issue MBS than to fund mortgage loans in other ways. For example, five-year mortgage rates had to be fixed at 180-200 basis points over GOC rates of equivalent duration so that issuers could cover issuance costs and risk and make a profit. In 1995, the spread between the five-year posted mortgage rate and comparable GOC rates averaged 158 basis points, compared with 226 in 1993.

Compounding the problem, few lenders now lend at posted rates. An informal survey conducted by the Market Analysis Centre in March indicates that loan rates were discounted between 50 and 75 basis points off posted rates, as opposed to 25 to 50 basis points a year ago.

Third, a significant share of mortgagors selected short-term mortgage loans, especially at renewal. Borrowers stay short until they believe that rates will climb sharply. Lenders, however, in order to cover issuance costs, tend to avoid issuing MBS with maturities shorter than five years.

Fourth, new issues of social housing pools have dropped since CMHC introduced its Direct Lending Program in 1993. In addition, some of the social housing programs have been cancelled by governments.

Lack of supply combined with strong demand has kept NHA MBS prices high and resulted in a narrowing rate spread between five-year NHA MBS and comparable GOCs. (Details on page 8.)

The dominance of large lenders and sluggish mortgage-lending activity will contribute to dampen the pace of new issues in 1996. However, the return of borrowers to longer term mortgages may convince some lenders to take the MBS route to fund mortgages if spreads widen. Indeed, the survey conducted by the Market Analysis Centre indicates that about 50 percent of new loans were for five years in January and February 1996. This is an increase of more than 10 percentage points in a year. The share of renewals for five years also increased by the same magnitude, to around 15 per cent.

The prospect of rising rates later in 1996 and in 1997 may lead more consumers to consider mortgages with terms of five years or more. ■

RESALE MARKET

MORTGAGE RATES CALL THE TUNE FOR MLS SALES

by Gilles Proulx, Chief Economist

This review of cyclical turning points in home sales finds a close link between mortgage interest rates and sales of existing homes. The current recovery, initiated in the spring of 1995, closely followed the retreat in mortgage interest rates and was shared by all major provincial markets. Furthermore, experience indicates that this recovery is now approaching maturity and may reverse itself if more increases follow the rate hike of March 1996.

In the spring of 1995, sales of existing homes surged shortly after mortgage interest rates began to drop. After peaking at 10.75 per cent in February 1995, interest rates for five-year mortgages began a fast retreat. They decreased by 200 basis points in the following three months. The pattern of MLS sales shows a bottoming out in March and then a rebound.

This pattern is not unusual. In fact, at cyclical turning points, sales of existing homes and mortgage interest rates tend to move in opposite directions. When mortgage rates peak, sales graphs illustrating the existing market generally show a trough. Conversely, a low in rates is coincident with a peak in sales of existing homes.

That opposite relationship is also broadly valid during the ups and downs of cycles in housing sales. Rising mortgage rates tend to push home sales lower; conversely, falling rates tend to bring better sales volumes. Overall, however, the relation is not as evident as during cyclical extremes because of the influence of economic conditions and demographic trends.

Why rates move sales

There are two reasons for this inverse relationship between rates and sales. First, over short periods of time, mortgage interest rates are by far the most significant factor affecting affordability and therefore housing demand. For example, mortgage interest rates, which were as high as 10.75 per cent during the past year, fell to 7.8 per cent in early March 1996. This resulted in a reduction of nearly $270 per month, or 20 per cent, in the mortgage costs of the average MLS home changing hands. Rates are much more significant than the other key determinants of affordability (incomes and home prices), which typically change by much smaller margins over so short a period of time.

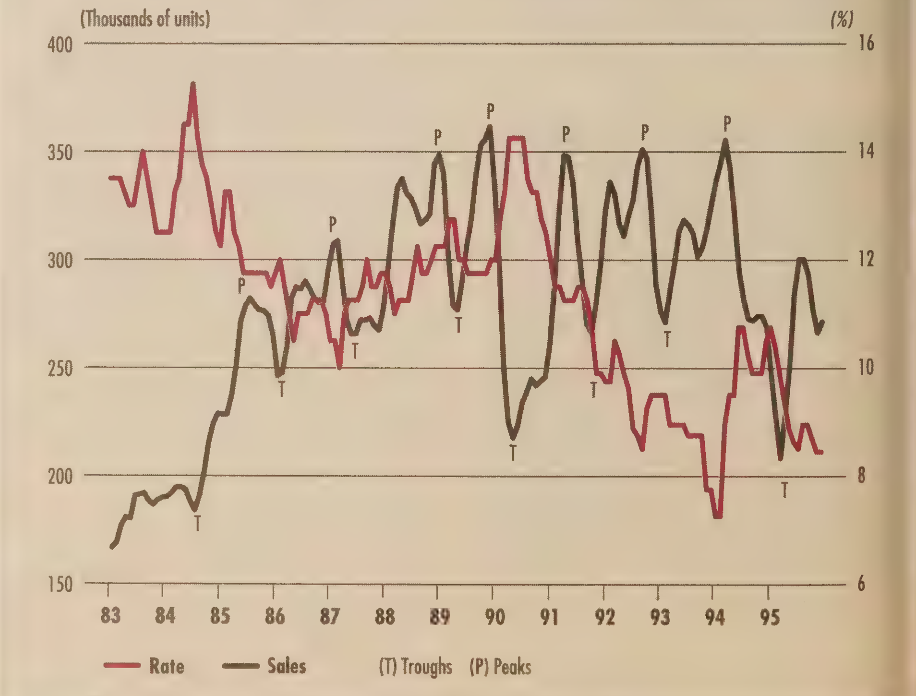
Second, greater affordability is more critical for sales of existing homes

continued on page 7

MLS Sales Cycles (in months)

Trough Date	Peak Date	Cycle Span	Expansion	Contractio
Aug-84	Aug-85	18	12	6
Feb-86	Mar-87	16	13	3
Jun-87	Jan-89	23	19	4
May-89	Dec-89	12	7	5
May-90	Apr-91	17	11	6
Oct-91	Sept-92	16	11	5
Feb-93	Mar-94	25	13	12
Mar-95				
Average length		18	12	6

Five-Year Mortgage Rate and MLS Sales



ıan for new homes. This is because ıe resale market appeals more to rst-time buyers, who tend to require ıore financing. In the early 1990s, 55 er cent of buyers of existing homes ere first-time buyers. This group, owever, made up 40 per cent of ıyers of new homes.

The same factors also account for ıe usually sharp retreat in MLS sales hen rates begin to surge, as first- me buyers are pushed out of the ıarket by rising rates.

ales recovery coincided with ıortgage rate retreats

Sales in this study are seasonally ljusted and a three-month-centered oving average has been calculated smooth the series. (See chart on ıge 6.) The study found that ortgage rates have historically been lated to MLS sales.

Since 1983, there have been eight oughs in MLS sales. On average, the ven cycles delimited by these oughs lasted 18 months. The ıortest was 12 months and the ngest extended to 25 months. The ngth of the expansion periods eraged 12 months, with a minimum 7 months and an maximum of 19. ıe contraction phases of those cycles sted between 3 and 12 months, with ı average of 6 months. (See table on ıge 6.)

Mortgage interest rates tended to rn around before the trough in les. For the eight troughs in review, tes peaked at or shortly before the ough six times. For the seven sales eaks, rates bottomed out multaneously in three cases. In three hers, the turnaround followed ımediately, with a lag of one or two onths.

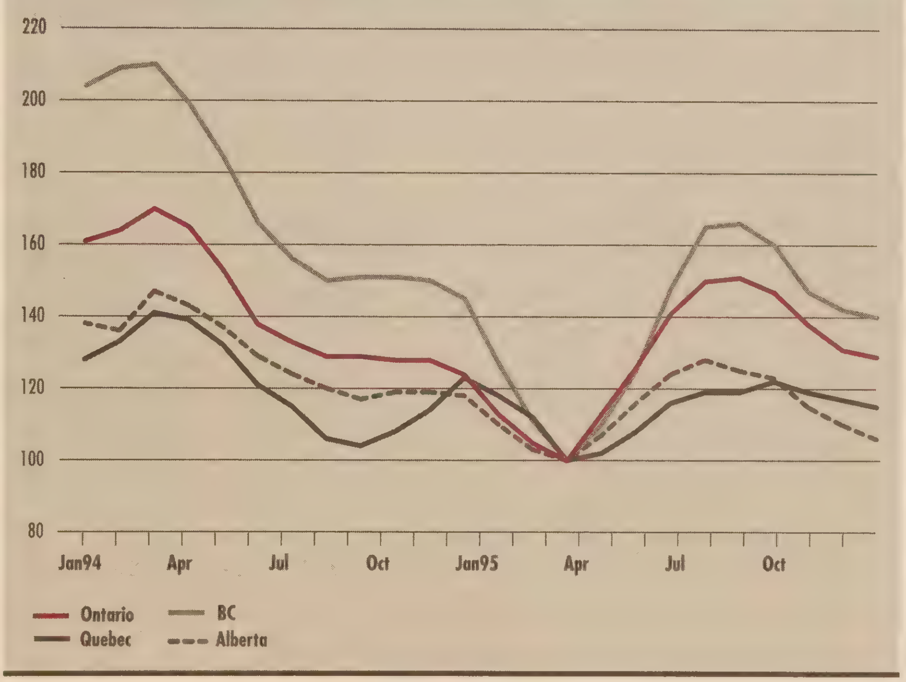
Based on this experience, it is ossible to put the current resale pansion in context. The resale arket turned around in March of 95. One year later, it has already run e average duration of the last seven pansion periods. It has therefore ached maturity, if past patterns old. It could reverse itself if the rate ke of early March 1996 is followed other mortgage rate increases. ■

ALL LARGER MARKETS SHARE IN THE TREND

Developments at the national level, of course, represent the sum of provincial market activities. Parallel movements of sales and interest rates are found in every provincial market substantially along the lines seen for the national aggregate. For the eight sales troughs identified, the turning points were the same in all cases in Ontario. For B.C. and Alberta, six low points occurred at the same time as at the national level. In Quebec, where sales tend to be more stable, five low points can be identified as taking place at the same time as at the national level.

Because mortgage rates are important and are uniform across the country, this coincidence is not so surprising. The current expansion is no exception. Sales bottomed out in March 1995 in each of the four markets that account for nearly 90 per cent of total national MLS sales. The chart below shows this common low point as well as broadly similar patterns in fall and recovery. The markets that saw the sharpest retreat in sales up to March 1995 are also those that saw the largest rebound. In descending order, they are B.C., Ontario, Alberta and Quebec. ■

MLS Sales in Four Largest Provinces (Index, March 1995 =100)



NHA MORTGAGE-BACKED SECURITIES

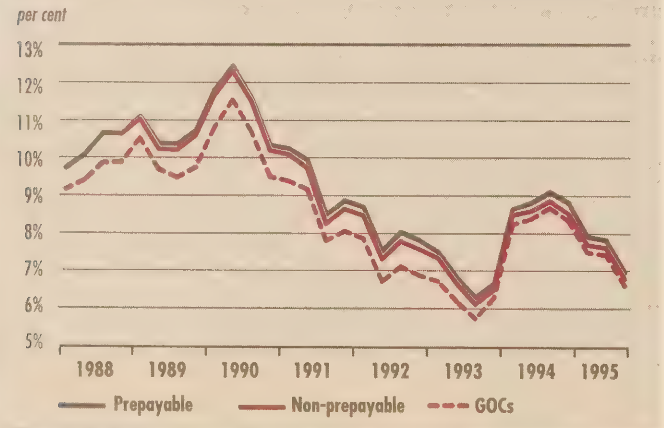
(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

		1993	1994	1995	95Q1	95Q2	95Q3	95Q
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	16,308.2	17,541.8	17,133.5	17,519.4	17,434.5	17,227.6	17,133
	Units	1,415	1,507	1,498	1,509	1.503	1,503	1,4
Residential, single (with PIP)[1]	$million	8,623.4	8,300.9	7,669.5	8,149.8	8,024.0	7,837.7	7,669
	Units	847	861	838	854	851	849	8
Residential, single (no PIP)	$million	0.0	610.5	714.6	640.6	666.5	693.9	714
	Units	0	53	80	60	64	71	[illegible]
Residential, multiple	$million	553.9	864.1	1,159.0	877.7	923.4	1,006.2	1,159
	Units	14	24	40	26	28	33	4
Social housing	$million	6,886.2	7,522.1	7,374.5	7,615.5	7,593.2	7,474.8	7,374
	Units	532	541	510	541	532	522	51
Mixed	$million	244.6	244.2	215.8	235.8	227.5	215.0	215
	Units	22	28	30	28	28	28	[illegible]
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	6,579.8	3,719.7	1,557.3	409.3	345.6	356.2	446
	Units	428	290	162	43	36	40	4
Residential, single (with PIP)	$million	3,410.8	1,542.9	415.4	115.2	92.1	101.9	106
	Units	273	137	71	22	20	18	1
Residential, single (no PIP)	$million	0.0	620.2	141.8	36.0	32.8	39.4	33
	Units	0	53	27	7	4	7	
Residential, multiple	$million	472.2	318.0	330.7	16.0	56.2	93.1	165
	Units	10	10	18	2	2	5	
Social housing	$million	2,652.5	1,189.6	656.9	242.1	164.5	117.4	132
	Units	139	84	43	12	10	9	1
Mixed	$million	44.2	48.9	12.4	0.0	0.0	4.3	8
	Units	6	6	3	0	0	1	
YIELDS (5-YEAR MATURITY, %)								
MBS Prepayable (with PIP)		7.21	8.40	7.98	8.90	8.01	7.92	7.
MBS Prepayable (no PIP)		–	–	8.04	8.94	8.07	8.00	7.1
MBS Non-prepayable		7.04	8.22	7.77	8.63	7.81	7.73	6.
MBS MMUF		7.15	8.33	7.86	8.73	7.89	7.81	7.
Mortgage rates		8.78	9.53	9.16	10.34	8.96	8.80	8.
GOCs		6.51	8.01	7.58	8.44	7.61	7.54	6.
SPREADS OVER GOC (5-YEAR MATURITY, %)								
Prepayable (with PIP)		0.70	0.40	0.40	0.46	0.40	0.38	0.
Prepayable (no PIP)		–	–	0.46	0.50	0.46	0.47	0.
Non-prepayable		0.53	0.21	0.19	0.19	0.20	0.19	0.
MMUF		0.63	0.32	0.28	0.29	0.28	0.28	0.
Mortgage Rates		2.26	1.53	1.58	1.90	1.36	1.26	1.

(1) PIP stands for Penalty Interest Payments Not seasonally adjusted data.

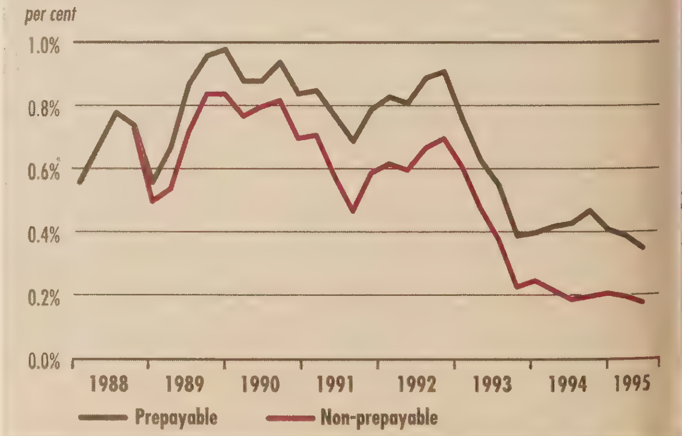
Sources: Nesbitt Burns; CMHC. CMHC – MAC 1

Selected Interest Rates
(5-year maturity)



Source: Nesbitt Burns. CMHC – MAC 1996

Spreads over GOCs
(5-year maturity)



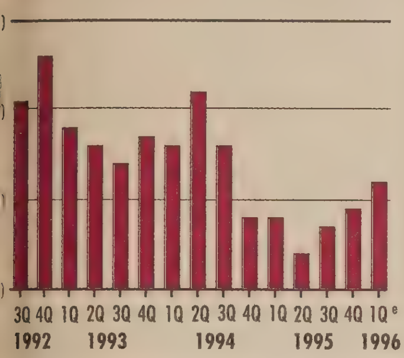
Source: Nesbitt Burns. CMHC – MAC 1

CMHC MORTGAGE MARKET

TRENDS

ARKET ANALYSIS CENTRE SECOND QUARTER 1996

esidential Mortgage Credit Growth*
rom previous quarter)



ominal e: estimate
rces: Bank of Canada; CMHC. CMHC – MAC 1996

arket Share of Residential Mortgage Credit

	1Q95	4Q95	1Q96e
nks	54.2%	55.1%	55.7%
usts	14.2%	13.4%	13.0%
isses & Co-op	14.0%	14.1%	14.0%
e	7.0%	7.0%	6.9%
nsion Funds	2.5%	2.3%	2.3%
. & Loan	8.1%	8.1%	8.1%

stimate
rces: Bank of Canada; CMHC. CMHC – MAC 1996

NSIDE

MORTGAGE LENDING

BUSIER TIMES FOR MORTGAGE LENDERS

by Gilles Proulx, Chief Economist

Increased housing demand and low mortgage rates provided for a busier mortgage lending environment during the opening months of 1996. For the year as a whole, mortgage lending is expected to grow 3 to 5 per cent, a moderate pace driven by improved but still cautious consumer confidence.

The opening months of the year were busier for mortgage lenders. The outstanding value of residential mortgage credit climbed 1.2 per cent, to $343.7 billion during the first quarter of 1996. This compares well with 0.9 per cent in the fourth quarter of 1995. Residential mortgage credit expanded by more than 1 per cent for the first time since the third quarter of 1994.

An improving new housing market was a major factor contributing to higher mortgage lending during the first quarter of 1996. Total housing starts advanced slightly to an annual rate of 112,600 units, but the advance was exclusively from single-detached homes. Early second quarter data shows that progress will remain irregular.

Another contributing factor was the good rebound in the resale market, returning to a level of nearly 300,000 MLS[1] sales. The resale market also showed good momentum in April and May as it continued to benefit from a low mortgage rate environment. There were other signs that consumer attitudes are improving. Although still low, the consumer confidence index of the Conference Board of Canada rose during the first quarter of 1996. As well, the labour market has shown a more consistent performance in the last six months, with fairly steady increases in employment.

During the opening months of the year, mortgage interest rates stayed low. These low rates were particularly important for the resale market. They also made more attractive the consolidation of consumer loans into mortgages. At the end of May, the one-year mortgage rate stood at 6.5 per cent after fluctuating in a 6.5 to 7 per cent range since the beginning of the year. The five-year rate has been steady at 8.5 per cent since mid-March. Although mortgage rates could go up later this year, the increases are likely to remain moderate.

For 1996, the outstanding value of residential mortgage credit should expand by 3 to 5 per cent. This remains a moderate expansion of lending activity. Attractive mortgage rates and a steadier economic recovery will be favourable, but consumer confidence should build up only gradually and keep a lid on housing demand in the new and existing markets. ■

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

CMHC SCHL
Helping to house Canadians
Canada

MORTGAGE CREDIT BY REGION: BRITISH COLUMBIA AND ALBERTA POST THE HIGHEST GROWTH RATES SINCE 1991

by Gilles Proulx, Chief Economist

According to this previously unpublished data, the trend in residential mortgage credit in the 1990s reverses the pattern observed during the 1980s. During that period, it was the eastern part of the country, including the Atlantic region, Quebec and Ontario, that displayed the strongest growth in residential mortgage credit. Since the 1991 recession, British Columbia and Alberta have had the largest increases.

New mortgage credit breakdown by province

This survey of residential mortgage credit by province and brief history of trends since the early 1980s is the first ever to appear in *Mortgage Market Trends.*

This data, drawn from Statistics Canada compilations, summarizes the business activity of lenders who provide breakdowns by province, including chartered banks, trust companies and credit unions. The mortgage credit outstanding for these institutions at mid-year 1995 – totaling $265.2 billion – represented approximately 80 per cent of the total for all financial institutions. This data excludes the activities of insurance companies, pension funds and mortgage-backed securities, for which no provincial breakdowns are available. Table 1 presents the provincial credit breakdown and the average annual growth observed since the end of 1991.

Turnaround in trends from the 1980s to the 1990s

Residential mortgage credit levels have changed very differently in the country's principal regions since the beginning of the 1980s. The experience of the eastern part of the country is illustrated in Figure 1. During the real estate boom of the 1980s, marked by high construction levels and substantial price increases, mortgage credit growth was strongest in Ontario, Quebec and the Atlantic region. Since the early 1990s, however, residential mortgage credit has been relatively stagnant in these regions, mainly reflecting the major decline in construction and the decrease in prices.

Figure 2 shows the changes in residential mortgage credit in the Prairies and British Columbia. Unlike the eastern part of the country, these regions did not have a real estate boom in the 1980s or a significant downturn in the 1990s. Overall, construction was more sustained and price changes were more continuous.

British Columbia and Alberta in first place in the 1990s

From the last quarter of 1991 to the second quarter of 1995, residential mortgage credit posted an annual growth rate of 7 per cent in Alberta and 14 per cent in British Columbia. The continued growth in mortgage credit has been mainly attributable to the business generated by residential construction and, to a lesser degree, to the sustained activity in the home resale sector and the increase in real estate values, especially in British Columbia. The housing market obviously reflects the economic momentum in these provinces, which has resulted in increased employment and improved immigration flows.

In the other western provinces, the level of mortgage credit increased by 2.4 per cent in Manitoba but decreased by 0.2 per cent in Saskatchewan, reflecting the difficult economic conditions in the agricultural sector an[d] industries in these provinces. This unfavourable situation had repercussions on employment and migratory balances there. Both construction and mortgage credit were hit.

In Ontario, residential mortgage credit has posted an annual growth rat[e] of 3.1 per cent since the 1991 recession, while the housing stock has gone up b[y] 5.0 per cent per year. In Quebec, the stock progressed at the same relative rate as in Ontario, while mortgage credit recorded a slightly larger

continued on page

Table 1. Mortgage Credit by Province

	Credit Outstanding June 1995 ($M)	Average Annual Growt[h] 1991-1995%
Newfoundland	2,014	2.8%
Prince Edward Island	620	7.0%
Nova Scotia	5,568	3.2%
New Brunswick	3,285	4.9%
Atlantic	11,487	3.8%
Quebec	55,820	4.1%
Ontario	115,052	3.1%
Manitoba	6,240	2.4%
Saskatchewan	4,363	-0.2%
Alberta	21,016	7.0%
Prairies	31,619	4.9%
British Columbia	51,194	14.4%
CANADA	265,196	5.4%

Sources: CMHC, Statistics Canada

CMHC - MAC 19

increase with a growth rate of 4.1 per cent per year. The overall economic climate was not very favourable in either province. During this period, however, there was a more pronounced drop in real estate prices in Ontario, following the explosion in prices at the end of the 1980s. This resulted in a further slowdown in the expansion of mortgage credit.

Since 1992, the Atlantic provinces have registered an average annual growth of 3.8 per cent in the level of residential mortgage credit. Prince Edward Island had the largest increase, with an annual growth rate of 7.0 per cent. The lowest rate, 2.8 per cent, was recorded in Newfoundland. In all four provinces, the housing stock posted an annual increase varying between 5 and 6 per cent.

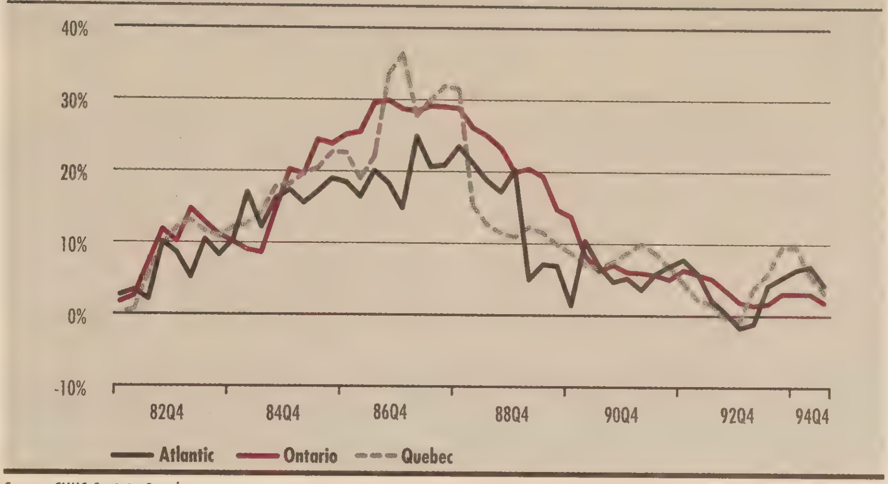
The importance of residential construction as a determining factor in the growth of mortgage credit is well highlighted in Figure 3. This figure illustrates the close parallel that exists between the progression of the housing stock and the growth in mortgage credit. Nationally, since the end of 1991, mortgage credit has posted an annual growth rate of 5.4 per cent, while the housing stock rose at an annual rate of 5.7 per cent.

Short-term outlook

Residential mortgage credit has been progressing slowly for the past year. This trend should be maintained, according to CMHC's new construction forecast. In fact, with the growth in housing stock expected to maintain a slow pace in 1996 and 1997, growth in mortgage credit should stay limited to the 3 to 5 per cent range experienced recently.

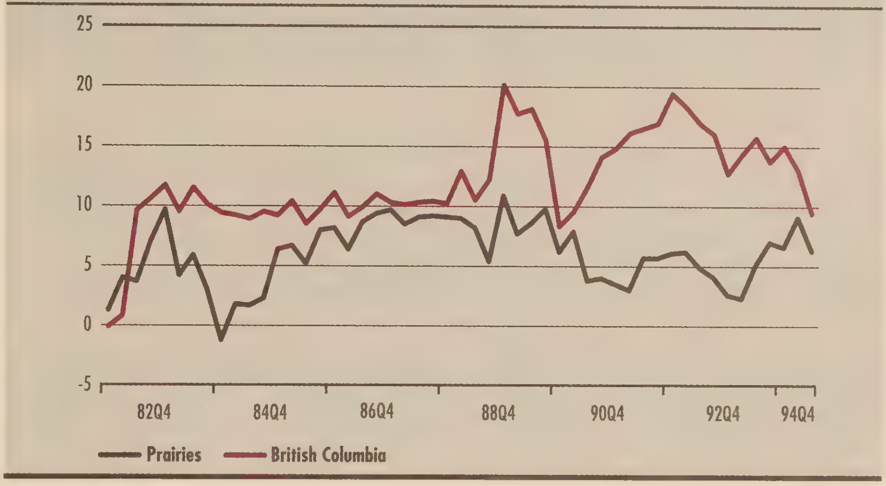
In addition, growth will be much more consistent across the provinces than in the last few years, reflecting the convergence of housing stock growth rates. These rates are expected to range from 0.5 per cent per year for Manitoba and Saskatchewan to slightly over 1.5 per cent for British Columbia and Alberta. As for the Atlantic region, Quebec and Ontario, the growth in the housing stock should hover around the national average of 1.0 per cent. ■

Figure 1: Mortgage Credit Growth
Atlantic, Quebec and Ontario



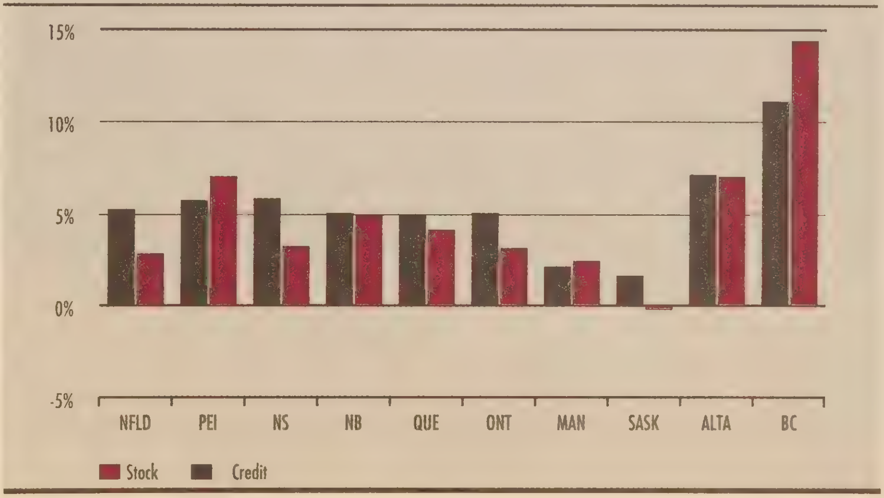
Sources: CMHC, Statistics Canada — CMHC - MAC 1996

Figure 2: Mortgage Credit Growth
Prairies and British Columbia



Sources: CMHC, Statistics Canada — CMHC - MAC 1996

Figure 3: Housing Stock and Mortgage Credit
Average Annual Growth for 1991-1995, by Province



Sources: CMHC, Statistics Canada — CMHC - MAC 1996

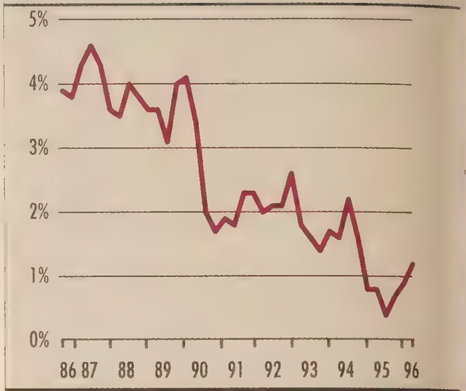
Mortgage Credit Outstanding[1] (in millions of dollars)

	1993	1994	1995	95Q2	95Q3	95Q4	96Q1 e
TOTAL	303,913	324,509	336,308	334,888	337,096	339,735	343,725
% change	7.9	6.8	3.7	0.4	0.7	0.9	1.2
Banks	147,123	170,365	183,036	181,698	183,221	187,221	191,297
Trust Co.	63,483	50,858	47,147	47,421	47,511	45,562	44,732
Caisses & CO-OP	42,489	45,256	47,183	46,920	47,323	47,822	48,208
Life Ins. Co.	21,414	22,662	23,573	23,631	23,525	23,719	23,825
Pension Funds	8,073	8,274	8,168	8,232	8,212	7,929	7,879
Fin. & Loan	21,331	27,094	27,201	26,986	27,305	27,483	27,985

(1) Seasonally Adjusted Data (e) Estimate

Sources: Bank of Canada; CMHC. CMHC – MAC 1996

Quarterly Residential Mortgage Credit Growth



Sources: Bank of Canada; CMHC. CMHC – MAC 1996

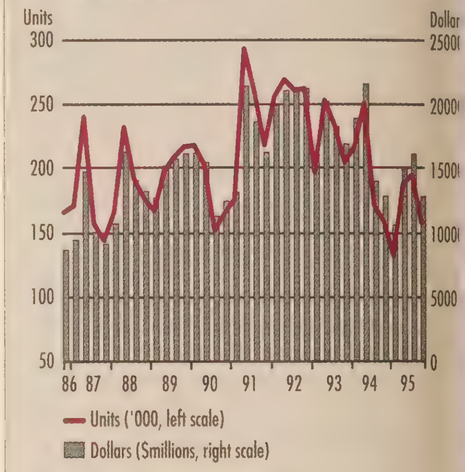
NHA and Conventional Loans Approved[1]

		1993	1994	1995	95Q1	95Q2	95Q3	95Q4
TOTAL	$ millions	71,665	67,433	54.575	10,600	15,007	16,131	12,837
	Units	893,016	803,511	676,640	132,921	189,151	195,788	158,780
NHA	$ millions	25,220	26,103	22,219	4,363	6,584	6,334	4,938
	Units	287,618	308,210	277,205	56,684	80,201	77,798	62,522
Conventional	$ millions	46,445	41,330	32,356	6,237	8,423	9,797	7,899
	Units	605,398	495,301	399,435	76,237	108,950	117,990	96,258
By Type of Lender								
Banks	$ millions	42,622	40,443	34,902	6,540	9,510	10,412	8,440
	Units	498,332	461,639	405,220	75,217	111,803	118,062	100,138
Trust Co.	$ millions	14,553	12,567	6,992	1,608	1,937	1,961	1,486
	Units	188,135	148,398	80,706	18,851	21,778	23,158	16,919
Life Ins. Co.	$ millions	4,624	4,138	3,742	805	1,256	975	706
	Units	78,175	64,056	71,203	13,430	25,351	19,096	13,326
Others	$ millions	9,866	10,285	8,939	1,647	2,304	2,783	2,205
	Units	128,374	129,418	119,511	25,423	30,219	35,472	28,397

(1) Not Seasonally Adjusted

Source: CMHC. CMHC – MAC 1996

NHA and Conventional Approvals



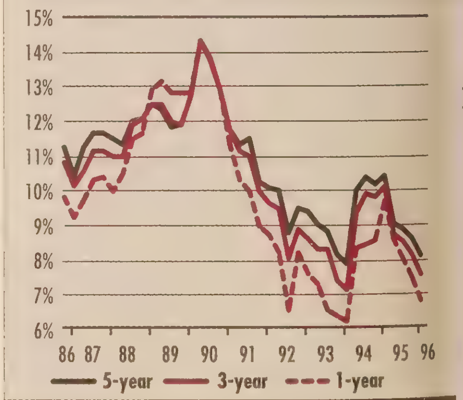
Source: CMHC. CMHC – MAC 1996

Mortgage Rates (%) (Average of period)

	1994	1995	94Q4	95Q1	95Q2	95Q3	95Q4	96Q1
1-Year Mortgage Rate	7.83	8.38	8.50	9.63	8.50	7.96	7.42	6.75
3-Year Mortgage Rate	8.99	8.81	9.75	10.04	8.67	8.46	8.08	7.50
5-Year Mortgage Rate	9.53	9.16	10.10	10.34	8.96	8.80	8.53	8.03

Sources: Bank of Canada; CMHC. CMHC – MAC 1996

Mortgage Rates



Source: Bank of Canada. CMHC – MAC 1996

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 495-2003.

Mortgage Market Trends is a quarterly publication. To order, in Canada call 1-800-668-CMHC, fax 1-800-463-3853; outside of Canada call 1-416-282-2950, fax 1-416-282-1897, or mail your order form to:
CMHC,
P.O. Box 3077,
Markham, Ontario L3R 6G4

Annual subscription (4 issues) $44. + GST – Order No. MMTSE.
Single issue $11. + GST.
Cette publication est aussi disponible en français sous le titre SCHL – Tendances du marché hypothécaire – N° de commande : MMTSF.

ISSN 1188-42 15
Printed in Canada

CMHC offers a wide range of housing-related information. For details, contact your local CMHC office.

NHA Mortgage-Backed Securities First Quarter Issues
January to March 1996

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: January 1996						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-411-947	TORONTO-DOMINION BANK	2,251,323.68	7.375	December 1, 2005	9.48	19.89
96-411-954	TORONTO-DOMINION BANK	2,137,237.33	7.375	July 1, 2004	9.07	13.16
96-411-962	M.R.S. TRUST COMPANY	10,055,597.55	6.750	January 1, 2001	8.42	23.13
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-465	THE EQUITABLE TRUST COMPANY	7,426,876.17	6.625	January 1, 2001	8.09	21.91
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-700-802	FIRSTLINE TRUST COMPANY	3,762,053.56	7.125	March 1, 2006	8.53	23.25
SOCIAL HOUSING POOLS						
99-007-148	CIBC MORTGAGE CORPORATION	18,775,143.39	6.500	January 1, 2001	7.09	26.33
99-007-171	BANK OF NOVA SCOTIA	8,631,591.00	6.250	January 1, 2001	7.61	35.00
99-007-163	TORONTO-DOMINION BANK	21,809,318.00	6.500	January 1, 2001	7.12	35.00
99-007-189	BANK OF NOVA SCOTIA	2,451,141.00	6.250	January 1, 1999	7.21	35.00
MONTH OF ISSUE: February 1996						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-411-996	M.R.S. TRUST COMPANY	6,495,972.92	6.500	February 1, 2001	7.91	23.41
96-411-988	FIRST HERITAGE SAVINGS CR. UN.	4,990,309.39	6.250	February 1, 2001	8.15	22.35
96-411-970	VANC. CITY SVGS. CREDIT UNION	72,977,605.43	6.500	December 1, 2000	8.24	21.54
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-700-810	FIRSTLINE TRUST COMPANY	3,792,535.30	6.750	April 1, 2003	8.25	24.81
96-700-828	FIRSTLINE TRUST COMPANY	4,227,116.76	7.000	May 1, 2006	8.33	22.12
SOCIAL HOUSING POOLS						
99-007-197	TORONTO-DOMINION BANK	11,661,307.00	6.250	February 1, 2001	6.84	35.00
MONTH OF ISSUE: March 1996						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-002	M.R.S. TRUST COMPANY	4,988,750.89	6.750	March 1, 2001	7.58	22.84
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-499	THE EQUITABLE TRUST COMPANY	3,054,050.00	8.000	March 1, 2011	8.65	25.00
96-600-507	THE EQUITABLE TRUST COMPANY	12,705,251.20	7.250	March 1, 2006	7.94	24.92
96-600-457	PEOPLES TRUST COMPANY	19,601,996.77	6.750	March 1, 2001	7.65	25.94
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-700-844	FIRSTLINE TRUST COMPANY	7,394,019.69	7.500	May 1, 2006	8.26	22.04
96-700-836	HONGKONG BANK OF CANADA	4,631,760.09	6.500	February 1, 2001	8.05	21.52
96-700-851	FIRSTLINE TRUST COMPANY	3,141,024.28	6.500	June 1, 2001	7.31	11.41
96-700-869	FIRSTLINE TRUST COMPANY	3,642,678.40	7.125	June 1, 2003	7.88	23.48
SOCIAL HOUSING POOLS						
99-007-205	PEOPLES TRUST COMPANY	2,676,275.48	6.375	March 1, 2001	6.94	22.02
99-007-213	NATIONAL BANK OF CANADA	7,145,566.08	5.500	March 1, 1999	6.05	28.44
99-007-221	TORONTO-DOMINION BANK	11,523,451.00	6.625	March 1, 2001	7.24	35.00

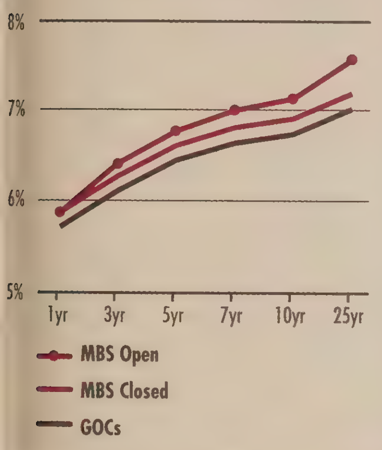
NHA MORTGAGE-BACKED SECURITIES

THE CHANGING FACE OF THE NHA MBS MARKET

by Ali Manouchehri, Senior Economist - Capital Markets

NHA Mortgage-Backed Securities (MBS) were introduced in Canada in 1987. They grew rapidly over the next six years and accounted for some 5 per cent of national mortgage credit outstanding by 1993. A total of 26 new NHA MBS pools, amounting to $261.9 million, were issued in the first quarter of 1996.

NHA Mortgage-Backed Securities Yield Analysis – *December 31, 1995*



Source: Nesbitt Burns. CMHC – MAC 1996

NHA Mortgage-Backed Securities Yield Analysis – *Market at 15:52, May 28, 1996*

GOC description Coupon Rate	Maturity Date	Type of MBS	Spread Basis Pts.*	Yield on MBS
6.00%	03/98	Open	36	6.33%
5.75%	03/99	Open	36	6.70%
7.50%	09/00	Open	36	7.17%
7.50%	03/01	Closed	17	6.98%
9.00%	12/04	Open	39	7.30%
8.75%	12/05	Open	44	7.98%
7.00%	12/06	Closed	21	7.75%

* Bid Side

Source: Telerate; average for MBS traders. CMHC – MAC 1996

First quarter of 1996 in review

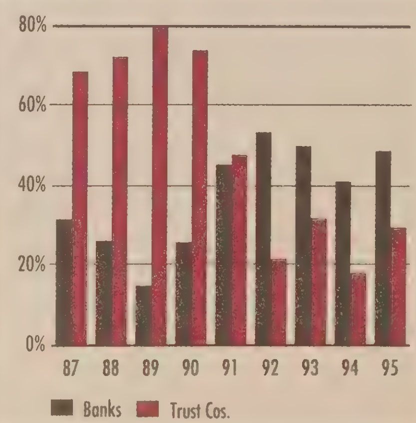
New issues of single residential NHA MBS held their own at $134.5 million in the first quarter of the year, down by less than 4.0 percent from the previous quarter. On the other hand, in the first three months of the year, new issues of multiple residential housing were down by two thirds and social housing was one third lower than in the previous quarter. Overall, there was a drop of approximately 40 per cent for all new issues. More than half of the 26 new pools issued were single residential pools.

The current slow pace of new NHA MBS issues is primarily attributable to two factors. First is low profitability. It became less profitable to issue MBS when the spread between the five-year posted mortgage rate and the comparable GOC rate dropped from 179 basis points in the previous quarter to 139 basis points in the first quarter of 1996. Discounts from posted mortgage rates by various lenders put additional pressure on MBS issues. Limited supply combined with strong demand kept NHA MBS prices high and resulted in narrower spreads between five-year NHA MBS and comparable GOCs. The spread shrank by one basis point for prepayable pools with PIP, while it fell by four basis points for prepayable pools without PIP.

Second, the widening spread between short- and long-term rates has encouraged some mortgagors to continue to choose short-term mortgage loans so that they could reap the benefits of lower short-term borrowing costs. This put another damper on new MBS issues, since lenders have traditionally maintained that issuing costs make MBS

continued on page 6

MBS New Issues by Banks and Trust Cos.
(Percent share of total issues)



Source: CMHC CMHC - MAC 1996

HOME BUYERS' PLAN TURNS DREAM INTO REALITY

by Ali Manouchehri, Senior Economist - Capital Markets

The federal government's Home Buyers' Plan has helped more than 402,000 households to become homeowners since it began in 1992. It has channeled more than $3.8 billion from RRSP funds into the housing market across the country. Ontario households account for 38 per cent of participants in the program, while B.C. home buyers make the largest withdrawals on average.

Under the Home Buyers' Plan (HBP), the federal government allows Canadians to withdraw up to $20,000 tax free from their RRSPs to purchase homes. The amounts withdrawn remain tax-exempt if they are repaid within 15 years. The extent and utilization of HBP was limited to first-time home buyers only when it was modified in March 1994.

By April 1996, more than 402,000 households had participated in the program and had withdrawn a whopping $3.8 billion from RRSPs to purchase homes. Despite the popularity of the HBP, however, it represented only 1.3 per cent of the value of new residential mortgages initiated during 1992-95. The program was most active in its first two years, with nearly $2.5 billion in withdrawals by 255,000 participants. Restriction of the program to the first-time home buyers coupled with sluggish housing markets since 1994 has checked the growth of HBP.

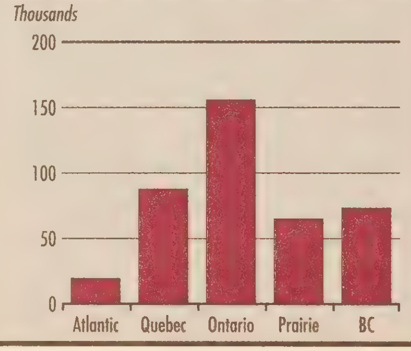
Participation in the program has varied from province to province and over time. Ontario home buyers accounted for approximately 38 per cent of both participants and amounts withdrawn between 1992 and 1996. Quebec accounted for nearly 22 per cent of participants, followed closely by B.C. at 18 per cent.

The size of the average withdrawal fell from a peak of $9,860 in 1993 to $8,064 in the first quarter of 1996. The average amount withdrawn in Quebec for the first quarter of 1996 was $9,905, down from $10,732 last year.

Participants typically withdrew from more than one RRSP to buy a home. The average number of withdrawals per participant has been hovering around 1.3 since 1992.

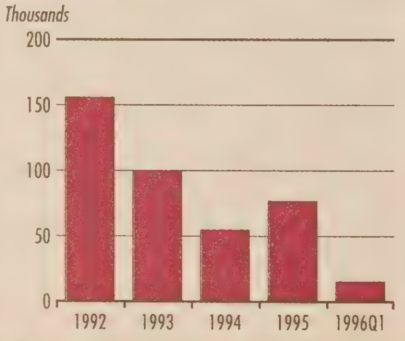
The HBP is likely to help some 65,000 households realize their homeownership dreams in 1996 by channeling more than half a billion dollars of RRSP funds into the housing market. ■

Home Buyers' Plan
Regional participation 1992-96Q1



Source: Revenue Canada — CMHC - MAC 1996

Home Buyers' Plan
No. of Participants



Source: Revenue Canada — CMHC - MAC 1996

unattractive for maturities of less than three years.

Who are the players?

The market has witnessed an array of changes as market players and interest in product types have changed. Financial deregulation, institutional consolidations, increased competition and a focus on social housing pools have propelled chartered banks to the forefront of MBS issuers. They held almost 50 per cent of the market share of new issues in 1995. From 1987 to 1995, market share fell for trust companies because fewer trust companies were active Approved Issuers and the average size of residential pools was relatively small.

The geographical distribution of new MBS issues has changed along with changing housing market conditions. Ontario's lead in issuing MBS extended from 58 per cent to 68 per cent of market share from 1987 to 1995. Prairie region's share of total new issues declined from 19 per cent to 7 per cent over the same period, while Quebec's share fell from 10 per cent to 3 per cent. Over the same time, B.C.'s market share increased from 12 per cent to 20 per cent and the Atlantic region had a marginal decrease, from 2.5 per cent to 1.7 per cent.

Where are NHA MBS heading in 1996?

The forces that slowed down new issues of NHA MBS last year -- low profitability, sluggish mortgage-lending activity, and dominance of large liquid lenders -- will continue to exert their influence in 1996. However, the prospect of rising rates later in the year may lead more consumers to consider longer term mortgages and encourage more lenders to take the MBS route to fund mortgages if spreads widen. ■

THE FUTURE IS NOW!

y Mary Noella MacInnis, Acting Coordinator, Business Planning and Reporting, Planning and Risk Management

A new electronic mortgage scorecard is keeping CMHC in the forefront of Canadian mortgage nsurance risk assessment. It allows the Corporation to provide the best possible service while ontinuing to preserve the long-term viability of the Mortgage Insurance Fund.

ntroducing Mortgage corecard

or Canada Mortgage and Housing orporation, assessing the future nese days is more than gazing nrough a crystal ball. Demonstrating s continuing leadership role in the anadian mortgage insurance ndustry, CMHC has recently ntroduced a new rating method for ssessing the risk of default ssociated with mortgage insurance pplications.

CMHC has always considered spects of risk when evaluating NHA nortgage insurance applications. owever, a more accurate and omprehensive assessment of nortgage loan insurance risk can ow help provide continued timely nd high quality service for clients. It an result in consistently high quality f the loan portfolio and ensure the ng-term health of CMHC's Mortgage Insurance Fund.

The new mortgage scorecard ectronically analyses the quality of a orrower's mortgage loan insurance pplication and predicts the robability that the loan will ventually lead to a claim.

ow was it developed?

In consultation with private dustry and a group of NHA pproved Lenders, CMHC eveloped a data base for the CMHC ortgage scorecard by compiling atistical information derived from storical CMHC mortgage insurance pplications, appraisals and credit ureau data. This information helped identify the characteristics that most influenced whether a mortgage insurance application would result in an eventual claim. Each characteristic was weighted to ensure that the scorecard would yield a balanced, unbiased view of applicants.

After extensive research and analysis, three major categories of characteristics were determined to be significant for the mortgage scorecard. Values were assigned for various attributes associated with each characteristic, so that the final score would reflect the relative risk of the mortgage insurance application.

Changes consistently monitored

In developing the mortgage scorecard, CMHC assumes that future risk patterns will be like those in the past. However, changes naturally occur over time, such as population shifts, the general characteristics of applicants, and changes in the economy. CMHC will monitor the effectiveness of the scorecard to ensure that it remains useful, and will adjust it as necessary.

The new CMHC mortgage scorecard will help take the process of mortgage default risk assessment into the future. While the mortgage scorecard will initially be incorporated in the **emili*** initiative, additional uses will be forthcoming. ■

**emili is a registered trade mark of CMHC. It is a state of the art computer based underwriting system that processes CMHC's mortgage loan insurance applications for existing homeowner units.*

What does the CMHC Mortgage Scorecard do?

- Electronically evaluates mortgage insurance applications
- Assigns points to various borrower characteristics
- Predicts the probability that a mortgage loan will proceed to a claim
- Determines the relative risk of the mortgage insurance application

NHA MORTGAGE-BACKED SECURITIES

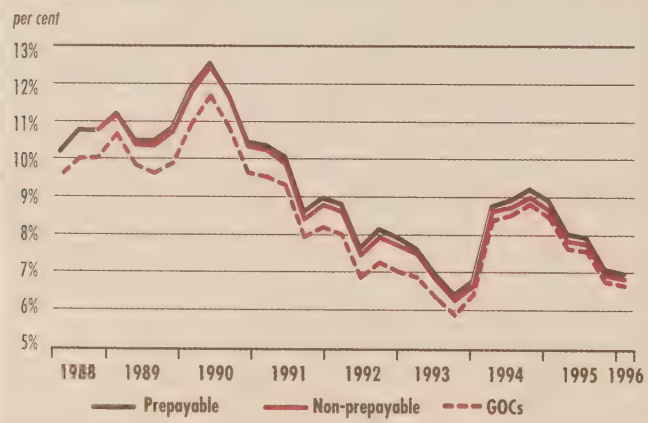
(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

		1994	1995	95Q1	95Q2	95Q3	95Q4	96Q1
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	17,541.8	17,133.5	17,519.4	17,434.5	17,227.6	17,133.5	16,600.
	Units	1,507	1,498	1,509	1,503	1,503	1,498	1,46
Residential, single (with PIP)[1]	$million	8,300.9	7,669.5	8,149.8	8,024.0	7,837.7	7,669.5	7,432.
	Units	861	838	854	851	849	838	81
Residential, single (no PIP)	$million	610.5	714.6	640.6	666.5	693.9	714.6	733.
	Units	53	80	60	64	71	80	8
Residential, multiple	$million	864.1	1,159.0	877.7	923.4	1,006.2	1,159.0	1,193.
	Units	24	40	26	28	33	40	4
Social housing	$million	7,522.1	7,374.5	7,615.5	7,593.2	7,474.8	7,374.5	7,040.
	Units	541	510	541	532	522	510	49
Mixed	$million	244.2	215.8	235.8	227.5	215.0	215.8	201.
	Units	28	30	28	28	28	30	3
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	3,719.7	1,557.3	409.3	345.6	356.2	446.2	261.
	Units	290	162	43	36	40	43	2
Residential, single (with PIP)	$million	1,542.9	415.4	115.2	92.1	101.9	106.3	103.
	Units	137	71	22	20	18	11	
Residential, single (no PIP)	$million	620.2	141.8	36.0	32.8	39.4	33.7	30.
	Units	53	27	7	4	7	9	
Residential, multiple	$million	318.0	330.7	16.0	56.2	93.1	165.4	42.
	Units	10	18	2	2	5	9	
Social housing	$million	1,189.6	656.9	242.1	164.5	117.4	132.8	84.
	Units	84	43	12	10	9	12	
Mixed	$million	48.9	12.4	0.0	0.0	4.3	8.1	0.
	Units	6	3	0	0	1	2	
YIELDS (5-YEAR MATURITY, %)								
MBS Prepayable (with PIP)		8.40	7.98	8.90	8.01	7.92	7.08	6.9
MBS Prepayable (no PIP)		–	8.04	8.94	8.07	8.00	7.16	7.0
MBS Non-prepayable		8.22	7.77	8.63	7.81	7.73	6.92	6.8
MBS MMUF		8.33	7.86	8.73	7.89	7.81	7.00	6.8
Mortgage rates		9.53	9.16	10.34	8.96	8.80	8.53	8.0
GOCs		8.01	7.58	8.44	7.61	7.54	6.74	6.6
SPREADS OVER GOC (5-YEAR MATURITY, %)								
Prepayable (with PIP)		0.40	0.40	0.46	0.40	0.38	0.34	0.3
Prepayable (no PIP)		–	0.46	0.50	0.46	0.47	0.41	0.3
Non-prepayable		0.21	0.19	0.19	0.20	0.19	0.17	0.1
MMUF		0.32	0.28	0.29	0.28	0.28	0.25	0.2
Mortgage Rates		1.53	1.58	1.90	1.36	1.26	1.79	1.3

(1) PIP stands for Penalty Interest Payments Not seasonally adjusted data.

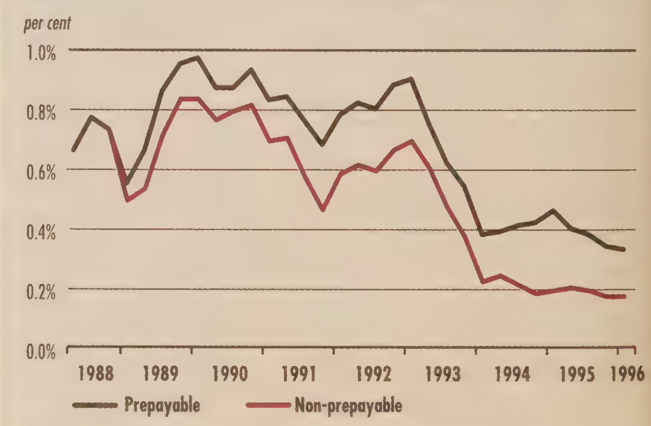
Sources: Nesbitt Burns; CMHC. CMHC – MAC 1

Selected Interest Rates
(5-year maturity)



Source: Nesbitt Burns. CMHC – MAC 1996

Spreads over GOCs
(5-year maturity)



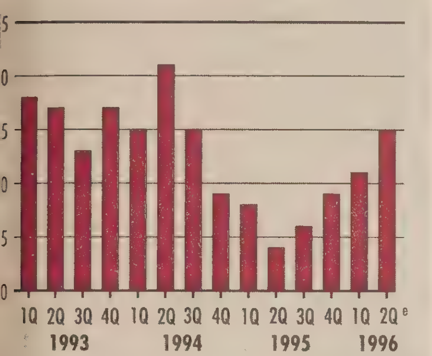
Source: Nesbitt Burns. CMHC – MAC 1

CMHC MORTGAGE MARKET

TRENDS

MARKET ANALYSIS CENTRE THIRD QUARTER 1996

Residential Mortgage Credit Growth*
(from previous quarter)



nominal e: estimate
Sources: Bank of Canada; CMHC. CMHC – MAC 1996

Market Share of Residential Mortgage Credit

	2Q95	1Q96	2Q96e
Banks	55.2%	56.4%	56.8%
Trusts	13.7%	12.7%	12.4%
Caisses & Co-op	14.0%	14.1%	14.1%
Life	6.6%	6.5%	6.4%
Pension Funds	2.4%	2.3%	2.2%
Fin. & Loan	8.0%	8.1%	8.1%

e: estimate
Sources: Bank of Canada; CMHC. CMHC – MAC 1996

INSIDE

MORTGAGE LENDING

MORTGAGE LENDING REACHES FASTEST PACE IN TWO YEARS

by Ali Manouchehri, Senior Economist - Capital Markets

Lower mortgage rates this past summer stimulated housing markets, leading to greater residential mortgage lending activity during the second quarter of the year. Other contributors to the growth of mortgage lending included improved consumer confidence, increased sales of both existing and new homes, and moderate price appreciation in the existing-home market.

Mortgage lending picked up in the second quarter of 1996 as higher consumer confidence coupled with lower mortgage rates encouraged more households to venture into the housing market. The value of outstanding residential mortgage credit climbed by nearly 1.5 per cent to $348.5 billion during the second quarter, up from a 0.4 per cent growth rate during the same period last year. This was the highest rate of credit expansion in two years.

Both the new- and existing-home markets posted gains during the second quarter of 1996. Seasonally adjusted housing starts rose to 124,600 units, up from 112,100 units in the previous quarter. This served to boost mortgage demand in the second quarter. The trend was offset somewhat, however, by a decline of three-quarters of a percentage point in the new house price index.

In the existing-home market, both sales volume and prices rose during the period. MLS[1] sales reached 302,000 units, up by 4.1 per cent over the previous quarter. MLS prices climbed 1.4 per cent.

The full impact of declining mortgage rates is yet to come. Early in the second quarter, short-term mortgage rates fell by about 50 basis points, but it was only in the third quarter that all rates began to drop. It normally takes one to three months for the existing-home market to react to mortgage rate changes, and four to six months for new housing to respond. Once lower interest rates are translated into lower homeownership costs, house sales, prices and housing starts will all rise and bolster mortgage demand over the next several months.

Sales of existing homes will play an important role in this trend even though the resale market is not as big a contributor to mortgage credit expansion as new housing is. Nevertheless, sales volume and price gains in the existing-home market will continue to support moderate growth in mortgage lending volume over the remainder of this year.

Market shares of outstanding mortgage credit by lender type in the second quarter were as follows: 56.8 per cent for banks, 12.4 per cent for trust companies, 14.1 per cent for credit unions, 6.4 per cent for life insurance companies, 2.2 per cent for pension funds, and 8.1 per cent for finance and loan companies. These percentages were much the same as in the previous quarter. ■

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

CMHC SCHL
Helping to house Canadians
Canada

SIGNIFICANT NUMBERS OF HOME BUYERS AND OWNERS ARE MORTGAGE-FREE

by Gary J. Mac Donald, Senior Economist - Market Analysis Centre

About 24 per cent of home buyers and 58 per cent of other owners of homes are mortgage-free. While these shares have fallen slightly because of the influx of first-time buyers, they are likely to increase in coming years as the population ages, therefore increasing the demand for and importance of other financial services.

A home mortgage is usually the key instrument that defines the relationship between a household and its financial institution. But institutions that use mortgage figures to calculate the number of home purchasers run the risk of missing a substantial segment of the market. Almost a quarter of home buyers in Canada (23.6 per cent from 1991 to the first quarter of 1994)[1] do not worry about mortgage rates, terms and payments because they do not take out a mortgage when they buy homes. In addition, 58.3 per cent of home owners who did not move in that period were mortgage-free by 1994.

These shares of mortgage-free buyers and owners were marginally lower than similar totals for 1990, when 24.3 per cent of buyers and 60.1 per cent of non-moving owners were mortgage-free. The decline is a result of the influx of first-time buyers in the 1990s. Only 16.4 per cent of first-time buyers did not need mortgages. The overall percentage of households owning their homes rose from 63.7 per cent in 1990 to 64.4 per cent in 1994.

Mortgage-free buyers are older

The average buyer without a mortgage is a 53.4-year-old head of household, while the average buyer with a mortgage is 39.5 years of age (1991-1994). Most regions are close to these averages, but two exceptions can be noted. Buyers without a

Home Owners and Buyers by Tenure: Number of Households

	With Mortgage	Without Mortgage	Total
Non-movers	2,144,189	3,000,464	5,144,653
Buyers	1,181,238	365,419	1,546,657
Total	3,325,427	3,365,883	6,691,310

Source: Statistics Canada HIFE 1994.

mortgage in Atlantic Canada are only 47.1 years old, 4.5 years younger than the next youngest group – those in the Prairie provinces. At the other end of the scale, buyers with mortgages in British Columbia are 42 years old, the only group of buyers with mortgages to average over 40, and B.C. buyers without mortgages average 56.6 years, three years more than the national average.

Both of these differences are linked primarily to home prices. In Atlantic Canada, a tradition of home ownership and strong community support joins low prices to make ownership easier at younger ages. Over 14 per cent of home buyers in Atlantic Canada from 1991 to 1994 were first-time buyers who had not previously maintained households. This is more than double the national average. In B.C., the high cost of housing tends to cause households to delay home ownership until their incomes and assets increase.

The average age of both buyers and non-movers has risen since the late 1980s (1987 to 1990). The age of non-movers has risen half a year for those with mortgages and almost three quarters of a year for those without. This is consistent with the aging of the "baby-boom" generation. In contrast, the average age of buyers has increased 1.4 years for those with mortgages and 3.2 for those without. Quebec had the largest increase, at 5.8 years for buyers without mortgages.

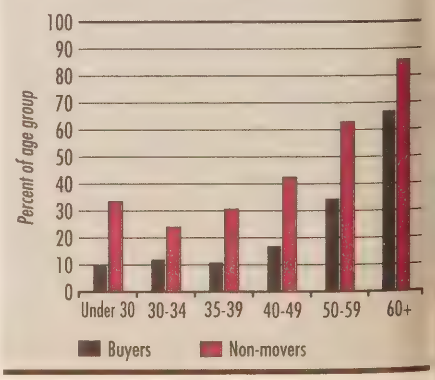
Two-thirds of buyers over 60 are mortgage-free, except for the Prairies where the level reaches 73.3 per cent.

Of buyers who are mortgage-free, 41.9 per cent are 60 or over, 42.2 per cent are between 35 and 59, and only 16 percent are under 35. Exceptions

continued on page

[1]*This analysis is derived from the Statistics Canada database Household Income, Facilities and Equipment. The periods used cover 1991 to the first three months of 1994, and 1987 to the first three months of 1990.*

Mortgage-free owners by age



Source: Statistics Canada HIFE 1994.

this pattern are in B.C., where 2.5 per cent are 60 or over and only .1 per cent are under 35, and in the tlantic provinces, where 29.7 per ent are under 35 and only 26.1 per ent are 60 or over.

maller and newer dwellings re preferred by cash buyers

The picture of mortgage-free buyers s older households, often seeking naller or lower-maintenance ccommodation, is reinforced by an xamination of unit types. With 7.9 per cent of these buyers choosing partments, they are almost twice as kely to purchase such units as are uyers with mortgages (9.4 per cent). oth groups of buyers are more likely own apartments than are non-oving owners at 8.0 per cent (with ortgage) and 7.6 per cent (without ortgage). Some preference for ndominiums is also shown: 14 per ent of buyers without mortgages lected condominiums, compared to nly 9 per cent of buyers with ortgages and 4.4 per cent of non-oving home owners.

Choice of Dwelling Type by Buyers

Tenure	Single	Semi-duplex-row	Apartment-other	Total
Buyers with mortgage	74.0%	16.5%	9.4%	100.0%
Buyers without mortgage	70.5%	11.6%	17.9%	100.0%

ce: Statistics Canada HIFE 1994.

Mortgage-free Buyers by Dwelling Type

enure	Single		Semi-duplex-row		Apartment-other	
	New	Existing	New	Existing	New	Existing
uyers with mortgage	78.3%	77.3%	82.1%	82.5%	59.3%	64.2%
uyers without mortgage	21.7%	22.7%	17.9%	17.5%	40.7%	35.8%

ce: Statistics Canada HIFE 1994.

Homeowners by Tenure, Status and Region

	Buyers		Non-movers		Total	
	With Mortgage	Without Mortgage	With Mortgage	Without Mortgage	With Mortgage	Without Mortgage
Canada	1,181,238	365,419	2,144,189	3,000,464	3,325,427	3,365,883
Atlantic	81,492	34,673	172,553	324,734	254,045	359,407
Quebec	238,137	48,229	590,186	670,234	828,323	718,463
Ontario	432,353	130,453	812,321	1,075,720	1,244,674	1,206,173
Prairies	212,145	70,570	327,058	541,146	539,203	611,716
B.C.	209,679	73,093	225,751	346,042	435,430	419,135

Source: Statistics Canada HIFE 1994.

Buyers without mortgages choose new or existing singles and semi-duplex-row units in roughly equal proportions, but 5.0 per cent more buy new apartments than existing apartments units.

Atlantic Provinces have largest proportion mortgage-free

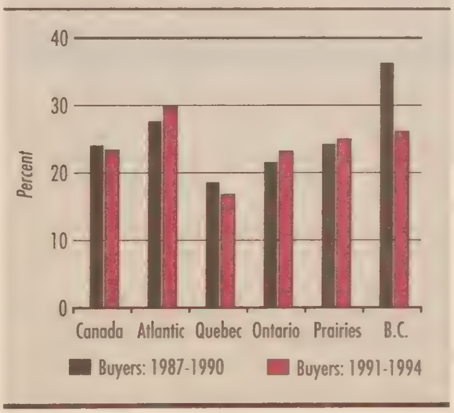
The Atlantic provinces have traditionally had a high level of home ownership. In 1991-94, 75.3 per cent of households in the region owned their homes, compared with 68.5 per cent in the Prairies and 64.4 per cent nationally. Among all owners, only the Atlantic (58.6%) and Prairie (53.2%) regions have more owners without mortgages than with them.

The shares of both buyers and non-movers who are mortgage free is also highest in the Atlantic provinces, with the share of mortgage-free buyers reaching 29.8 per cent in the 1990s. The next highest was British Columbia, where the rate fell to 26.1 percent in the 1990s from 36.3 per cent in the period 1987-1990. These levels compare with a national average of 23.6 per cent of buyers in the 1990s.

Over the same period, the proportion of mortgage-free home-owners *excluding* buyers fell from 60.1 per cent in 1987 to 1990 to 58.3 per cent in 1991-1994. Again, levels

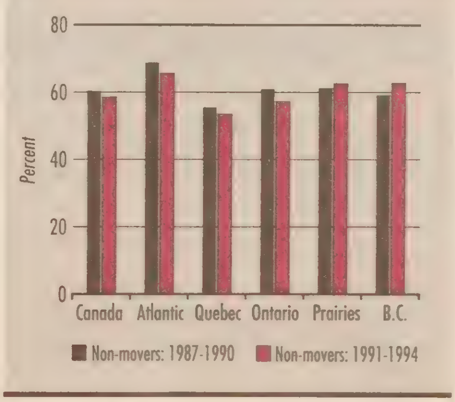
continued on page 9

Buyers who are mortgage-free
1987 to 1990Q1 and 1991 to 1994Q1



Source: Statistics Canada HIFE.

Non-movers who are mortgage-free
1987 to 1990Q1 and 1991 to 1994Q1



Source: Statistics Canada HIFE.

Mortgage Credit Outstanding[1] (in millions of dollars)

	1994	1995	95Q3	95Q4	96Q1	96Q2[e]
TOTAL	324,509	335,750	336,364	339,490	343,185	348,502
% change	6.8	3.6	0.6	0.9	1.1	1.5
Banks	170,365	185,663	185,963	189,489	193,550	198,054
Trust Co.	50,858	45,672	45,672	44,670	43,520	43,366
Caisses & CO-OP	45,256	47,176	47,368	47,825	48,334	49,106
Life Ins. Co.	22,662	22,113	22,166	22,148	22,180	22,138
Pension Funds	8,274	8,045	7,991	7,903	7,829	7,762
Fin. & Loan	27,094	27,080	27,205	27,454	27,774	28,076

(1) Seasonally Adjusted Data (2) Cumulative (e) Estimate

Sources: Bank of Canada; CMHC. CMHC – MAC 1996

Quarterly Residential Mortgage Credit Growth

Sources: Bank of Canada; CMHC. CMHC – MAC 19

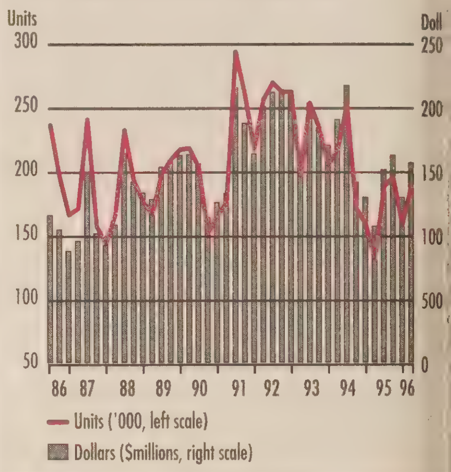
NHA and Conventional Loans Approved

		1993	1994	1995	95Q2	95Q3	95Q4	96Q1
TOTAL	$ millions	71,665	65,116	54.575	15,007	16,131	12,837	15,553
	Units	893,016	764,042	676,640	189,151	195,788	158,780	188,853
NHA	$ millions	25,220	25,944	22,219	6,584	6,334	4,938	6,928
	Units	287,618	306,238	277,205	80,201	77,798	62,522	83,925
Conventional	$ millions	46,445	39,172	32,356	8,423	9,797	7,899	8,625
	Units	605,398	457,804	399,435	108,950	117,990	96,258	104,928
By Type of Lender								
Banks	$ millions	42,622	40,352	34,902	9,510	10,412	8,440	10,516
	Units	498,332	460,775	405,220	111,803	118,062	100,138	123,072
Trust Co.	$ millions	14,553	10,593	6,992	1,937	1,961	1,486	1,750
	Units	188,135	113,370	80,706	21,778	23,158	16,919	20,662
Life Ins. Co.	$ millions	4,624	4,061	3,742	1,256	975	706	822
	Units	78,175	62,708	71,203	25,351	19,096	13,326	12,375
Others	$ millions	9,866	10,110	8,939	2,304	2,783	2,205	2,465
	Units	128,374	127,189	119,511	30,219	35,472	28,397	32,744

(1) Not Seasonally Adjusted

Source: CMHC. CMHC – MAC 1996

NHA and Conventional Approvals



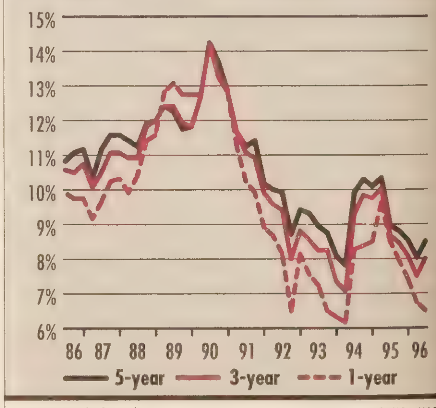
Source: CMHC. CMHC – MAC 19

Mortgage Rates (%) (Average of period)

	1994	1995	95Q2	95Q3	95Q4	96Q1	96Q2
1-Year Mortgage Rate	7.83	8.38	8.50	7.96	7.42	6.75	6.50
3-Year Mortgage Rate	8.99	8.81	8.67	8.46	8.08	7.50	8.00
5-Year Mortgage Rate	9.53	9.16	8.96	8.80	8.53	8.03	8.50

Sources: Bank of Canada; CMHC. CMHC – MAC 1996

Mortgage Rates



Source: Bank of Canada. CMHC – MAC 19

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 218-3305.

Mortgage Market Trends is a quarterly publication. To order, in Canada call 1-800-668-CMHC, fax 1-800-463-3853; outside of Canada call 1-416-282-2950, fax 1-416-282-1897, or mail your order form to:
CMHC,
P.O. Box 3077,
Markham, Ontario L3R 6G4

Annual subscription (4 issues) $44. + GST – Order No. MMTSE.
Single issue $11. + GST.
Cette publication est aussi disponible en français sous le titre SCHL – Tendances du marché hypothécaire – Nº de commande : MMTSF.

ISSN 1188-42 15
Printed in Canada

CMHC offers a wide range of housing-related information. For details, contact your local CMHC office.

NHA MORTGAGE-BACKED SECURITIES

JOINT CMHC-INDUSTRY TEAMS REVIEW NHA MBS PROGRAM

by Ali Manouchehri, Senior Economist - Capital Markets

In its ongoing efforts to monitor, evaluate and improve NHA Mortgage-Backed Securities (MBS), CMHC commissioned a strategic analysis of the program in 1995. The study led to the formation of five joint CMHC-industry teams, each focusing on a particular issue. The teams are expected to finalize their recommendations by late September.

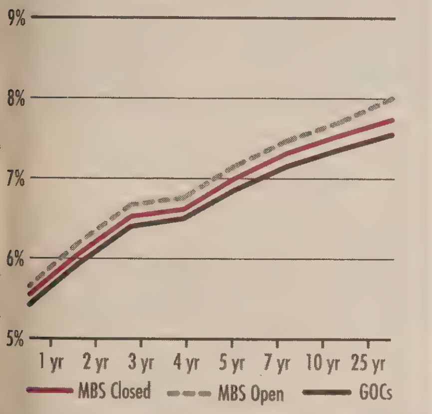
Changing the face of NHA MBS

To better serve NHA MBS clients and stimulate the secondary mortgage market in Canada, CMHC commissioned a strategic analysis of the program during 1995. The analysis was undertaken by BMB Consulting Services Inc. using an industry advisory group.

The study led to six major recommendations each of which is currently being examined by a joint CMHC-industry team. Based on these recommendations, the teams are expected to suggest options available to CMHC and the industry in the following areas:

- development of new products to better meet the needs of the investment community,
- improvement of existing products to make them more attractive, and
- development of partnerships to expand the NHA MBS market.

NHA Mortgage-Backed Securities Yield Analysis – *June 28, 1996*



urce: Nesbitt Burns. *CMHC – MAC 1996*

HA Mortgage-Backed Securities Yield Analysis – *Market at 14:47, July 19, 1996*

GOC description				
oupon ate	Maturity Date	Type of MBS	Spread Basis Pts.	Yield on MBS
.00%	03/98	Open	37	6.15%
.50%	08/99	Open	37	6.80%
.50%	09/00	Open	37	7.17%
.50%	03/01	Closed	18	6.98%
.50%	03/01	Open	40	7.31%
.75%	12/05	Open	54	8.10%
.75%	12/05	Closed	22	7.78%

urce: Telerate; average for MBS traders. *CMHC – MAC 1996*

NHA MBS volume up

A total of 36 new NHA MBS pools, amounting to $592.5 million, were issued in the second quarter of 1996, up from $261.9 million in the previous quarter. Over half the new issues were in single residential pools at a value of $232.4 million, an increase of 73 per cent over the first quarter of 1996. Multiple residential pools also made a big comeback, nearly tripling in volume from the previous quarter to reach $117.9 million. Social housing pools rose as well to $220.8 million compared to $84.7 million in the first quarter of the year.

Despite the substantial increase in MBS volume, profitability for issuers remained low because the spread between the five-year posted mortgage rate and the comparable GOC rate hardly changed. It stood at 147 basis points in the second quarter compared to 146 basis points in the previous quarter and an average of 146 basis points since 1994. Discounts from posted mortgage rates by various lenders put additional pressure on MBS issues. Limited supply, combined with strong demand, kept NHA MBS prices high and resulted in narrower spreads between five-year NHA MBS and comparable GOCs. The spread shrank by two basis points for prepayable pools both with or without PIP.

The yield curve also remained steep during the second quarter, encouraging some mortgagors to choose short-term mortgage loans so that they could reap the benefits of lower short-term borrowing costs. This reduced the attractiveness of MBS relative to other means of funding mortgages, mitigating a wider utilization of NHA MBS.

However, higher lending activity, recent declines in the five-year mortgage rates and the prospect of rising rates by year-end may lead more consumers to consider longer-term mortgages. This will encourage more lenders to take the MBS route to fund mortgages if yield spreads widen. ■

HOMEOWNERS KEEN ON PREPAYMENT OPTIONS

by Gilles Proulx, Chief Economist, Market Analysis Centre

In 1995, nearly one in five Canadian mortgage holders paid more down on their mortgages than what was required by their regular payment schedules, an industry survey shows.

Canadians are eager to take advantage of flexible payment options offered by mortgage lenders, a survey by the Financial Industry Research Monitor (FIRM) shows. Conducted every quarter, the survey asks a random sample of just over 2,000 homeowners about their finances and plans, particularly with regard to mortgages.

The FIRM survey of March 1996, reveals that nearly one in five mortgage holders made some kind of prepayment during 1995. The average amount was $7,150. More than 10 per cent of survey respondents prepaid $5,000 or less; the rest succeeded in paying back more than $5,000.

However, the survey also found that, although the same proportion of mortgagors – one in five – planned to make extra payments in 1996, the average amount paid would be only $6,300. Moreover, the one in five number is a drop from 1994 when nearly 30 per cent of mortgage holders reported making extra payments. The change in prepayment practices is difficult to account for with certainty, but there are two possible reasons for it.

First, homeowners may have been affected by the decline in mortgage interest rates during most of 1995. The prospect of lower rates at renewal time may have led mortgage holders to make fewer prepayments and to use their savings for other purposes instead. Second, consumer confidence, as measured by the Conference Board of Canada's Index of Consumer Attitudes, fell in 1995 and early 1996, with more consumers reporting a deterioration of their personal finances. In such an environment, it may be difficult for homeowners to accumulate the savings needed to make a lump sum payment on the mortgage anniversary date.

Prepayment and financial freedom

For most Canadian homeowners, paying down the mortgage – their greatest financial commitment – is key to financial freedom. Mortgage borrowers have therefore repeatedly said that they favour a mortgage contract with payment flexibility.

> *"Paying off all debt by age 55 remains a major objective"*

Lenders have obliged by incorporating a wider range of prepayment schemes and flexible payment options in their standard contracts. They have been spurred to do so by the competitive lending environment as well as a climate of financial innovation. Options being offered include shorter-term mortgages, various forms of bi-weekly or weekly payments and the possibility of making prepayments at the mortgage loan renewal or anniversary date, or at other points in time without penalties.

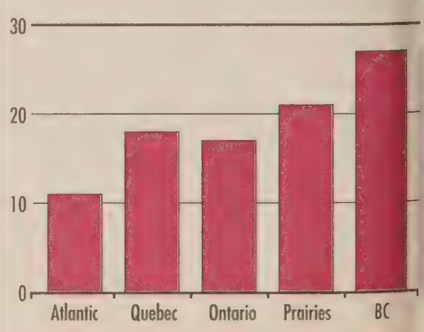
The FIRM survey findings on homeowners' financial goals and intentions support the theory that prepayment options are very important to Canadian mortgage holders. For example, two-thirds of respondents who were heads of households and younger than 50 agreed strongly that paying off all debt by age 55 was a major objective for them. (This confirms data in CMHC's own Survey of Consumer Housing Preferences in the 1990s.) Furthermore, when mortgage holders were asked how they would use a $25,000 windfall, such as winning a lottery or receiving an inheritance, over half said that the primary or secondary use would be paying down a mortgage.

Regional trends

Prepayment trends revealed by the FIRM survey varied significantly across the country. As the chart shows, British Columbia had the highest proportion of mortgage holders making prepayments – more than 25 per cent. This may be due to high home prices and large mortgages in the province, which spurred mortgage holders to reduce the burden as fast as possible. In other regions, the percentage of mortgage holders making prepayments varied between 17 and 21 per cent, except for the Atlantic region where the proportion was only 11 per cent. Respondents' stated

continued on page

Homeowners with prepayments by region, 1995
(As a percentage of homeowners with mortgages)



Source: FIRM Survey, March 1996.

NHA Mortgage-Backed Securities Second Quarter Issues
April 1996 to June 1996

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: April 1996						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-010	M.R.S. TRUST COMPANY	5,977,291.37	6.750	April 1, 2001	7.51	23.06
96-412-028	FIRST HERITAGE SAVINGS CR. UN.	5,751,946.59	6.750	April 1, 2001	7.49	23.02
96-412-036	BAYSHORE TRUST COMPANY	3,982,796.03	5.750	December 1, 1996	7.64	18.83
NHA-INSURED MAKRET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-481	PEOPLES TRUST COMPANY	4,624,037.38	7.625	April 1, 2006	8.27	24.96
96-600-515	FIRSTLINE/CIBC BANK	11,711,965.04	6.375	April 1, 2001	7.67	24.17
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-700-885	FIRSTLINE/CIBC BANK	3,203,948.73	7.125	June 1, 2003	7.96	21.51
96-700-893	FIRSTLINE/CIBC BANK	6,780,799.39	7.625	June 1, 2006	8.36	22.46
96-700-877	HONGKONG BANK OF CANADA	10,231,546.08	6.000	March 1, 2001	7.55	20.70
SOCIAL HOUSING POOLS						
99-007-155	CIBC MORTGAGE CORP.	9,388,659.00	7.250	April 1, 2001	7.77	35.00
99-007-239	TORONTO-DOMINION BANK	59,684,379.75	6.375	April 1, 2001	7.08	30.20
99-007-247	TORONTO-DOMINION BANK	22,459,598.00	6.875	April 1, 2001	7.47	35.00
MONTH OF ISSUE: May 1996						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-077	VANC. CITY SVGS. CREDIT UNION	69,579,209.21	6.500	March 1, 2001	7.60	21.48
96-412-044	M.R.S. TRUST COMPANY	7,994,312.80	6.750	May 1, 2001	7.57	23.13
96-412-051	FIRST HERITAGE SAVINGS CR. UN.	5,997,938.58	6.750	May 1, 2001	7.41	22.76
96-412-069	VANC. CITY SVGS. CREDIT UNION	34,412,072.51	6.000	March 1, 1999	7.11	21.85
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-523	THE EQUITABLE TRUST COMPANY	6,223,173.03	7.750	May 1, 2006	8.44	27.91
96-600-531	THE EQUITABLE TRUST COMPANY	14,355,952.92	6.625	May 1, 2001	7.80	22.88
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-700-919	FIRSTLINE/CIBC BANK	3,895,300.14	7.625	July 1, 2006	8.45	23.23
96-700-927	FIRSTLINE/CIBC BANK	2,341,703.56	7.500	July 1, 2006	8.36	12.55
96-700-901	HONGKONG BANK OF CANADA	33,848,826.50	6.000	April 1, 2001	7.62	20.37
SOCIAL HOUSING POOLS						
99-007-254	TORONTO-DOMINION BANK	29,674,551.00	7.125	May 1, 2001	7.66	35.00
MONTH OF ISSUE: June 1996						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-085	M.R.S. TRUST COMPANY	7,507,730.56	7.000	June 1, 2001	8.08	22.63
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-335	THE EQUITABLE TRUST COMPANY	21,438,227.33	7.125	June 1, 2001	7.78	23.25
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-549	PEOPLES TRUST COMPANY	6,648,350.00	7.750	June 1, 2006	8.49	25.00
96-600-556	FIRSTLINE/CIBC BANK	43,707,815.78	7.125	June 1, 2001	7.74	24.90
96-600-473	PEOPLES TRUST COMPANY	30,622,386.03	6.625	June 1, 2001	7.48	24.16

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-700-935	HONGKONG BANK OF CANADA	3,501,916.47	6.000	June 1, 1999	6.89	22.09
96-700-943	HONGKONG BANK OF CANADA	7,005,807.52	6.500	June 1, 2000	8.31	20.14
96-700-950	HONGKONG BANK OF CANADA	5,705,594.00	6.500	April 1, 2001	7.28	21.56
96-700-968	FIRSTLINE/CIBC BANK	3,853,053.35	6.625	September 1, 2001	7.80	11.42
96-700-976	FIRSTLINE/CIBC BANK	4,606,135.16	7.000	August 1, 2003	8.20	22.19
96-700-984	FIRSTLINE/CIBC BANK	6,202,093.52	7.625	August 1, 2006	8.67	21.63
SOCIAL HOUSING POOLS						
99-007-262	TORONTO-DOMINION BANK	33,824,378.93	7.625	June 1, 2006	8.26	30.58
99-007-270	TORONTO-DOMINION BANK	10,068,540.00	6.750	June 1, 2001	7.28	35.00
99-007-288	CIBC MORTGAGE CORP.	45,222,816.00	6.750	June 1, 1999	7.37	35.00
99-007-296	TORONTO-DOMINION BANK	10,461,465.00	7.125	June 1, 2001	7.78	34.01

LONG-TERM MORTGAGES THE LEADING CHOICE SINCE 1980

by Ali Manouchehri, Senior Economist - Capital Markets

For the past 16 years, home buyers seeking mortgages insured under the National Housing Act (NHA) have tended to opt for five-year mortgages despite the higher cost of these products. The longer terms are preferred because they offer security of fixed payments over time and because such terms were required under certain loan insurance programs. Five-year terms are particularly popular in Ontario and the Atlantic.

CMHC research shows that between 1980 and July 1996, the five-year mortgage was the leading mortgage product in Canada, selected by nearly 45 per cent of all home buyers utilizing NHA loan insurance. By contrast, 25 per cent of buyers chose the one-year term, 20 per cent took the three-year term and only 4.5 per cent opted for the two-year term. The remaining 5.5 per cent of buyers chose a variety of other loans which cannot be accurately classified due to insufficient data. The data cover over two million loans exceeding $210 billion over the 16-year period.

Since 1991, five-year terms have become the norm. They made up 70 per cent of all NHA mortgages in 1992 and currently account for nearly 63 per cent.

When choosing a mortgage product, consumers are influenced by a number of factors. These include: carrying costs, payment security, regulatory requirements, the size of the mortgage and whether the consumer is a first-time buyer or in the move-up market.

The CMHC data suggest that as mortgage rates rise, buyers tend to select shorter terms so as not to be stuck for too long with higher carrying costs. But this factor does not necessarily dominate choice. Nor do the data support a strong link between the mortgage term selected and the amount of the mortgage, although five-year mortgage terms are, on average, associated with larger loans.

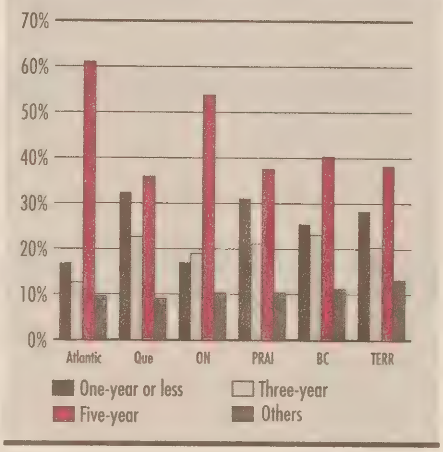
The type of consumer making the choice does seem to be very significant. First-time home buyers tend to opt for longer terms because they are not as familiar with financing options as are move-up buyers and because they are more concerned with payment stability. The regulatory requirements of some loan insurance programs also play a role. For example, the First Home Loan Insurance Program, introduced in 1992, required initially that participants take a five-year term. That year, the percentage of five-year mortgages selected rose sharply although their requirements were relaxed.

Encouraged by relatively low mortgage rates and improved affordability, first-time home buyers will likely continue to dominate the housing market this year and next. This will maintain the balance in favour of five-year mortgages.

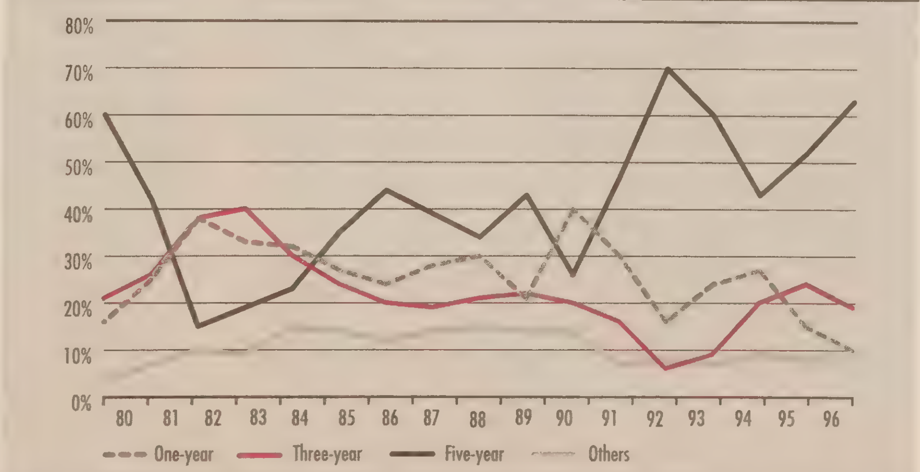
Regional preferences

Home buyers in Ontario and the Atlantic provinces were more likely to choose five-year mortgages than their counterparts in the rest of the country. This trend could be due to lower income levels among NHA-insured home buyers, the high average house prices in Ontario and economic uncertainty in the Atlantic region. By contrast, consumers in Quebec and the Prairies relied more heavily on short-term mortgages, which may be a reflection of lower house prices in these regions. The pattern of regional mortgage term selection has remained remarkably stable over the analysis period. The exception is Quebec, where home buyers have exhibited varying preferences over time. ■

Mortgage Term Selection by Region *(per cent)*



NHA MortgageTerms Selected *(per cent)*



Source: CMHC, 1996 data refers to Jan-July period.

CMHC – MAC 1996

NHA MORTGAGE-BACKED SECURITIES

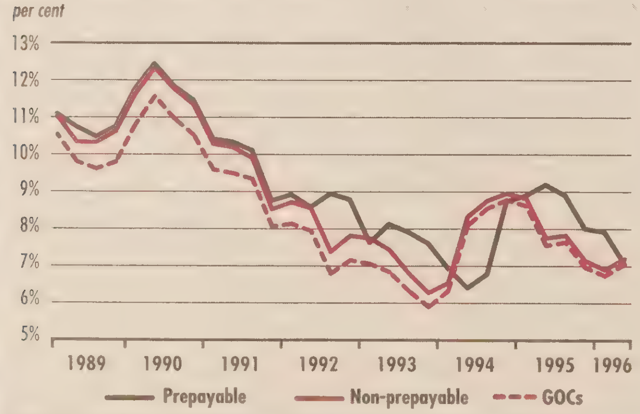
(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

		1994	1995	95Q2	95Q3	95Q4	96Q1	96Q2
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	17,541.8	17,133.5	17,434.5	17,227.6	17,133.5	16,600.9	15,944.2
	Units	1,507	1,498	1,503	1,503	1,498	1,466	1,431
Residential, single (with PIP)[1]	$million	8,300.9	7,669.5	8,024.0	7,837.7	7,669.5	7,432.4	6,902.4
	Units	861	838	851	849	838	816	795
Residential, single (no PIP)	$million	610.5	714.6	666.5	693.9	714.6	733.0	800.7
	Units	53	80	64	71	80	87	99
Residential, multiple	$million	864.1	1,159.0	923.4	1,006.2	1,159.0	1,193.6	1,301.0
	Units	24	40	28	33	40	43	50
Social housing	$million	7,522.1	7,374.5	7,593.2	7,474.8	7,374.5	7,040.4	6,735.9
	Units	541	510	532	522	510	490	458
Mixed	$million	244.2	215.8	227.5	215.0	215.8	201.5	204.2
	Units	28	30	28	28	30	30	29
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	3,719.7	1,557.3	345.6	356.2	446.2	261.9	592.5
	Units	290	162	36	40	43	28	36
Residential, single (with PIP)	$million	1,542.9	415.4	92.1	101.9	106.3	103.9	141.2
	Units	137	71	20	18	11	7	8
Residential, single (no PIP)	$million	620.2	141.8	32.8	39.4	33.7	30.6	91.2
	Units	53	27	4	7	9	7	12
Residential, multiple	$million	318.0	330.7	56.2	93.1	165.4	42.8	117.9
	Units	10	18	2	5	9	4	7
Social housing	$million	1,189.6	656.9	164.5	117.4	132.8	84.7	220.8
	Units	84	43	10	9	12	9	8
Mixed	$million	48.9	12.4	0.0	4.3	8.1	0.0	21.4
	Units	6	3	0	1	2	1	1
YIELDS (5-YEAR MATURITY, %)								
MBS Prepayable (with PIP)		8.34	8.09	7.96	8.02	7.31	7.07	7.36
MBS Prepayable (no PIP)		–	8.16	8.02	8.10	7.39	7.11	7.41
MBS Non-prepayable		8.15	7.89	7.76	7.83	7.15	6.91	7.20
MBS MMUF		8.26	7.97	7.84	7.91	7.23	6.98	7.26
Mortgage rates		9.53	9.16	8.96	8.80	8.53	8.03	8.50
GOCs		7.94	7.70	7.56	7.64	6.97	6.74	7.05
SPREADS OVER GOC (5-YEAR CONSTANT MATURITY, %)								
Prepayable (with PIP)		0.40	0.40	0.40	0.38	0.34	0.33	0.31
Prepayable (no PIP)		–	0.46	0.46	0.47	0.41	0.37	0.36
Non-prepayable		0.21	0.19	0.20	0.19	0.17	0.17	0.15
MMUF		0.32	0.28	0.28	0.28	0.25	0.24	0.21
Mortgage Rates		1.60	1.46	1.41	1.16	1.56	1.29	1.45

(1) PIP stands for Penalty Interest Payments Not seasonally adjusted data.

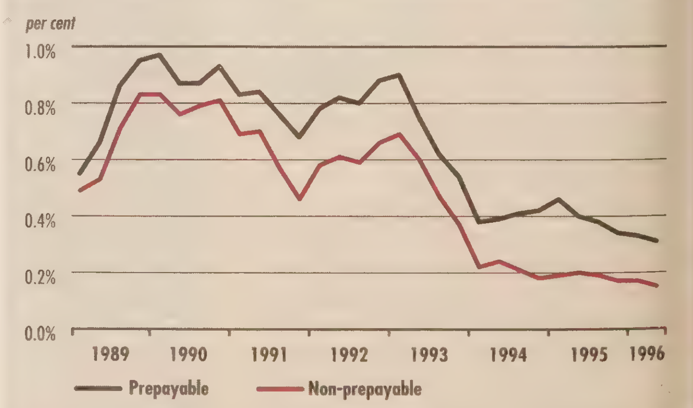
Sources: Nesbitt Burns; CMHC. CMHC – MAC 1996

Selected Interest Rates
(5-year maturity)



Source: Nesbitt Burns. CMHC – MAC 1996

Spreads over GOCs
(5-year maturity)



Source: Nesbitt Burns. CMHC – MAC 1996

were highest in the Atlantic provinces and lowest in Quebec. Western Canada bucked the averages, with the share of mortgage-free home owners increasing in the 1990s.

Mortgage-free buyers rely less on salaries

Only 50.5 per cent of mortgage-free buyers claim wages and salaries as their primary source of income, compared with 85.5 per cent for those with mortgages. This is a reflection of the higher age level of those without mortgages, and therefore their increased reliance on pensions and income from accumulated assets.

In the 1991-1994 period, buyers with mortgages paid an average of 2.4 times their income for homes, with an average value of $145.7 thousand. Buyers without mortgages paid 3.2 times income for homes valued at an average of $153.5 thousand. In all regions except Ontario, buyers without mortgages paid a higher multiple of income, although only in Ontario did they actually pay a higher average price.

Implications for financial institutions

Predominantly older, mortgage-free buyers and owners typically have significant assets – equity in a home and savings from a lifetime of work – which allow them to purchase a home without borrowing. Instead of credit, they are more likely to require asset management services such as investment advice and administration. A lifetime of gradual asset accumulation often leaves people with more assets than they might have considered previously. Recognizing the size of this unanticipated bounty may make some people worry about how to appropriately choose investment vehicles that will provide adequate income and safeguard their wealth.

The number of older Canadians who find themselves in this situation will increase with the aging of the "baby-boomers" who experienced steady employment at good wages and strong appreciation in real estate values.

For many, both now and in the future, the greatest financial problem will likely be the conversion of assets into a regular and secure cash flow. Innovative annuity and reverse mortgage products will play an increasing part in allowing Canadians to retain and enjoy their homes as they grow older. Institutions which are able to offer these features to clients will have an advantage in building loyalty among these asset-rich consumers, and building access to increased asset management business as well as trust and estate services. ■

Income sources of buyers
Percent shares, 1991-1994

Source: Statistics Canada HIFE.

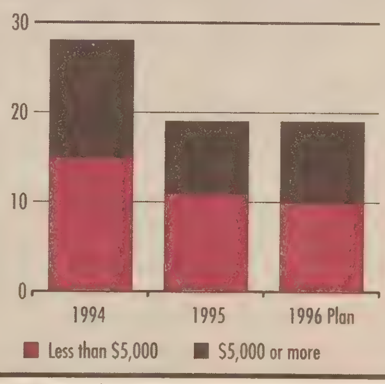
intentions for 1996 show that these regional differences will likely continue this year.

The average amount paid also varied from region to region; it was much larger in Ontario than elsewhere. Respondents' plans for 1996 indicated that the Ontario experience will be much closer to the national average this year, while B.C. residents will make larger payments.

Additional insight on prepayment trends is provided by other tabulations from the survey. These show that prepayment reflects financial flexibility; it is more popular among households with above average incomes and among those who have few other debts. Another interesting finding is that young households tend to make larger and more frequent payments. This likely reflects a desire by couples to reduce financial burdens while both spouses are working and before they face the added costs of raising a family. ■

For details about the FIRM Survey, please contact Clayton Research at (416) 699-5645.

Homeowners making prepayments, Canada
(As a percentage of homeowners with mortgages)



Source: FIRM Survey, March 1996.

In today's business environment, we must not only look at what is happening today but also into the future.

Plan now to attend Canada Mortgage and Housing's 1996 Housing Outlook Conferences and get the local and provincial forecasts to help you succeed in 1997.

CMHC Housing Outlook Conference

Mark your calendar now!

Hamilton	October 1	Helen Hutton	(905) 572-7100
Regina	October 18	Todd Selby	(306) 780-5889
Vancouver	October 23	Peter Vandyke	(604) 737-4086
Saskatoon	October 25	Paul Caton	(306) 975-4897
Calgary	October 29	Brad Amos	(403) 292-6263
St. John's	November 5	Mac Woodman	(709) 772-4034
Winnipeg	November 6	Richard Goatcher	(204) 983-5600
Halifax	November 6	Michael Lavalette	(902) 426-2744
Moncton	November 7	Bruce Read	(506) 452-3796
Charlottetown	November 8	Jean Breau	(506) 636-4480
Thunder Bay	November 14	Robin Wiebe	(807) 343-2010
Trois-Rivères	November 19	Denis Boucher	(514) 967-3733
Montréal	November 20	Jacques Pelletier	(514) 283-8396
Toronto	November 21	Willard Dunning	(416) 789-8709
Ottawa	November 25	Joanne Henry	(613) 748-5128

Registration is limited, so call today to reserve or to inquire about receiving conference proceedings.

You want the facts
and you want them fast . . .

Housing Facts

- keeps you in touch with the latest economic information on housing
- provides up-to-date information on housing starts and future market conditions
- is faxed to you monthly, as soon as new housing starts figures are released

Get the information you need!

Subscribe to ***Housing Facts***!

To order, call

(613) 748-2737

or fax your request to

(613) 748-2156

Your Monthly Report on Canada's Housing Market

Housing Facts

Special This Month: Housing impact of Saguenay floods

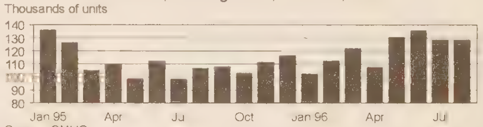
September 10, 1996 / Volume 1 Number 9

For enquiries, contact Michel Laurence at 1-613-748-2737 or mlaurenc@cmhc.e-mail.com

In this issue:
- *New housing in a recovery mode?*
- *What's up, or down, with mortgage rates*
- *New home prices down but costs up*
- *New homes compete with existing market*
- *Ontario buyer profile*
- *Consumer confidence is building*
- *Rental and homeownership market size*
- *Soffit requirements in 1996 and 1997*
- *New CMHC model helps consumers decide to buy or rent*

Housing starts in August match July's pace

Canada, housing starts, all areas, saar*



Source CMHC

* Seasonally adjusted annual rate

- The pace of new housing construction remained essentially unchanged in August relative to the previous month. The number of housing starts in August stood at 128,500 units compared with 128,400 in July, seasonally adjusted at an annual rate (SAAR). A decline in urban singles offset an increase in multiples. Higher starts activity in Quebec and Alberta made up for a drop in B.C. construction.
- The August starts figures did not reflect increased demand as a result of lower mortgage rates during the month One-year mortgage rates dropped from 6 5 per cent to 6 125 per cent while five-year rates declined from 8.5 per cent to 7.95 per cent. The rate reductions are expected to lift the existing homes market first.
- Typically, drops in mortgage rates increase resale volume within a month or two while sustained declines in rates raise home building activity within a quarter or two.
- Recent starts figures and key economic indicators point to higher activity levels over the next few months, but the recovery will remain moderate by historical standards.■

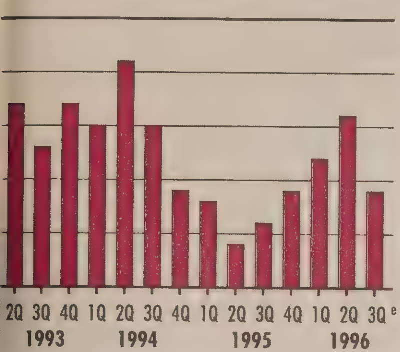
CMHC contributors: Gilles Proulx, David Dallaire, Michel Laurence, Ali Manoucheri, Eric Dallaire, Gary MacDonald; other: Pip White

CMHC SCHL
Helping to house Canadians

Canac

CMHC MORTGAGE MARKET
TRENDS
MARKET ANALYSIS CENTRE
FOURTH QUARTER 1996

esidential Mortgage Credit Growth*
om previous quarter)



ninal e: estimate
ces: Bank of Canada; CMHC. CMHC – MAC 1996

arket Share of Residential Mortgage Credit*

	3Q95	2Q96	3Q96e
nks	55.3%	56.8%	57.0%
sts	13.6%	12.4%	12.1%
sses & Co-op	14.1%	14.0%	14.2%
	6.6%	6.5%	6.5%
sion Funds	2.4%	2.2%	2.1%
& Loan	8.1%	8.0%	8.0%

mate
l does not add up to 100% due to rounding
es: Bank of Canada; CMHC. CMHC – MAC 1996

NSIDE

MORTGAGE LENDING

MORTGAGE LENDING GROWTH LOSES MOMENTUM

by Ali Manouchehri, Senior Economist – Capital Markets

Despite lower rates, residential mortgage lending grew at a slower pace during the third quarter, partly reflecting continued consumer caution. Lower mortgage rates, however, are expected to lead to stronger growth in mortgage lending over the next three to six months.

Residential mortgage lending inched up marginally in the July-September period as reduced mortgage rates encouraged more households to venture into the housing market and purchase homes. The outstanding value of residential mortgage credit grew by 0.9 per cent to reach $351.9 billion during the third quarter. This growth was not as robust as the 1.6 per cent expansion in the previous three months.

Markets for new homes advanced in the third quarter, providing room for the expansion of mortgage lending activity. Seasonally adjusted housing starts rose by more than 3.0 per cent in the third quarter of 1996 to reach 128,600 units, up from 124,600 units in the previous quarter. On the other hand, a 1.0 per cent decline in the new house price index this autumn from the previous quarter had a dampening impact on mortgage credit growth.

The story was similar for the resale market. Sales of existing homes were up by 1.2 per cent from the previous quarter but the average sale price declined by 0.8 per cent, according to MLS.[1] This slow pace of resale activity slowed mortgage credit growth from the rate of the previous quarter.

With continuing labour market adjustments, Canadians adopted a more cautious attitude in the third quarter. The index of consumer attitudes slipped to 100.8 from 101.5 in the previous quarter.[2] Concern over job security and the uncertainty of employment income translated into limited activity in the housing market despite lower mortgage rates.

Lower interest rates are expected to stimulate the economy over the coming months and improve the environment for mortgage lending. Reduced mortgage rates will mean lower home ownership costs and increased home sales, prices, and housing starts, though with a lag of several months for the latter.

Market shares of outstanding mortgage credit by lender type in the third quarter were similar to those of the previous quarter: 57.0 per cent for banks, 12.1 per cent for trust companies, 14.2 per cent for credit unions, 6.5 per cent for life insurance companies, 2.1 per cent for pension funds, and 8.0 per cent for finance and loan companies. ■

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.
(2) Conference Board of Canada, third quarter 1996.

CMHC SCHL
Helping to house Canadians
Canada

MORTGAGE LOAN PORTFOLIO MANAGEMENT IN CANADIAN FINANCIAL INSTITUTIONS

by Marc Godbout, Information Manager, L'Informateur Universel

The capital markets in Canada have seen fundamental changes over the past twenty-five years. Financial institutions have had to change the way they manage their mortgage portfolios and to diversify their sources of funds.

Sound management has made it possible for them to continue to provide Canadian households with mortgage financing that reflected rates in force on the capital market. In spite of interest rate volatility during this quarter century, the profit margin – that is, the spread between lending rates and borrowing rates – remained relatively stable for financial insti-tutions. This is the same conclusion reached by a 1994 Bank of Canada report that used a much shorter observation period (1980-1993).

Portfolio management and setting of mortgage interest rates

The balance sheets of financial institutions can help us understand the mechanisms used to set mortgage rates. Balance sheets show assets and liabilities, with each item broken down over various investment instruments and financing terms. Table 1, a simplified example for a financial institution in Canada, reflects the most common asset and liability items.

Financial institutions must routinely take into account their funding requirements. We have already seen that institutions use a variety of vehicles to finance such items as mortgage loan portfolios. This financing may be raised from individuals or as a direct issue of securities on capital markets.

Deposit certificates represent a major source of funds, accounting for nearly three quarters of the total supply. The rates offered by financial institutions depend to a great extent

continued on page 3

FUNDAMENTAL CHANGES

End of gold convertibility of U.S. dollar

Major changes have forced financial institutions to modify their mortgage portfolio management practices. The first major one was the ending of gold convertibility for U.S. currency in 1971. From that time on, currencies could fluctuate without limit. The oil crises of 1973 and 1979 further accentuated the volatile nature of currency markets. Prices in Canada rose, and interest rate levels went up with them.

Before 1973, most financial institutions in Canada granted long-term mortgage loans (for as much as 25 years) while their deposits were primarily short-term (less than one year). When interest rates remained stable, this difference in the length of the terms between their assets and liabilities (matching) did not affect their loan portfolio return. However, when short-term interest rates increased more rapidly than long-term rates, profits tended to decline.

In 1973, with volatility increasing in currency markets, most financial institutions decreased the maximum term for mortgage loans to five years. With this new policy, sudden interest rate hikes would not have as serious an effect on their loan portfolio return. When the minimum term for mortgage loans was set at three years in 1978 and at one year in 1980, financial institutions were finally afforded built-in protection against interest rate volatility, since the due dates for long-term deposits became the same as for mortgage loans.

Trade globalization and electronic data interchange

Canadian capital markets had to come to grips with a second major change early in the eighties with the rapid development of data interchange technology. The computer revolution increased the potential for international trade within large companies and increased the scope of financial transactions around the world. With electronic data interchange technology, it became possible to conduct transactions immediately between Toronto and Tokyo, Montreal and London, Vancouver and Singapore. But another consequence was that interest rates became more volatile in Canada, and remained so until the nineties.

With the arrival of instant global transactions, a financial crisis in Europe could significantly affect interest rate fluctuations in Canada. To forestall the adverse impact of interest rate volatility on their loan portfolios, financial institutions introduced new financial products.

Although these new products, or derivatives, were off-balance-sheet items, they made it possible for financial institutions to better manage their assets and liabilities while minimizing the risks and financing costs associated with interest rate volatility. To a certain extent, in a period characterized by wide interest rate fluctuations in Canada, these new products have contributed to stabilize mortgage interest rates.

able 1: Financial Institution A - Simplified Matching Report

ssets	1 year	1-3 years	3-5 years	5 years+	Total
iquid Assets	$190,923,554	$575,289,207	$200,381,634	–	$966,594,395
rate of return	6.18%	6.51%	7.72%	–	6.69%
ecurities	$403,480,805	$570,656,562	$585,893,271	$325,496,262	$1,885,526,900
rate of return	6.53%	6.25%	7.33%	7.87%	6.93%
ommercial Loans	$357,555,885	$768,617,887	$2,023,831,073	$948,577,717	$4,098,582,563
rate of return	7.78%	8.60%	9.93%	10.91%	9.72%
lortgage Loans	$235,821,648	$437,300,338	$1,556,880,784	$59,527,795	$2,289,530,564
rate of return	6.57%	7.43%	8.90%	9.67%	8.40%
ther Assets	$759,765,578	–	–	–	$759,765,578
rate of return	7.45%	–	–	–	7.45%
tal Assets	$1,947,547,471	$2,351,863,993	$4,366,986,762	$1,333,601,773	$10,000,000,000
rate of return	7.09%	7.30%	9.11%	10.11%	8.43%
abilities					
emand Deposit	$665,859,875	–	–	–	$665,859,875
rate of return	4.76%	–	–	–	4.76%
otice Deposits	$1,591,104,339	–	–	–	$1,591,104,339
rate of return	5.51%	–	–	–	5.51%
xed Term Deposit	$753,563,916	$3,353,359,424	$1,168,024,069	–	$5,274,947,409
rate of return	5.57%	6.51%	7.72%	–	6.64%
ther Liabilities	$492,968,926	$592,535,835	$888,803,753	$493,779,863	$2,468,088,377
rate of return	7.45%	6.47%	7.58%	8.15%	7.40%
tal Liabilities	$3,503,497,057	$3,945,895,259	$2,056,827,822	$493,779,863	$10,000,000,000
rate of return	5.65%	6.50%	7.66%	8.15%	6.52%
lue to Match	($1,555,949,585)	($1,594,031,266)	$2,310,158,940	$839,821,911	–
et Profit Margin	(60,046,453)	(84,822,709)	240,389,477	94,605,944	**$190,126,259**

Mortgage rates are thus based on the borrowing costs for financial institutions plus a margin to cover administration expenses over the term of the mortgage loan plus a profit margin. In November 1996, for example, the rate on five-year mortgage loans was 7.20 per cent and the return on corporate bonds (borrowing costs for financial institutions) was 5.90 per cent. The spread was 1.30 percentage points.

Derivatives and their uses

The derivatives most commonly used by Canadian financial institutions are **interest rate SWAPS** and **term contracts**, better known as **futures,** or FRAs. FRAs are agreements that make it possible for financial institutions to purchase options on financial securities so that they will be protected against interest rate fluctuations. With this option, financial institutions may create buffers against interest rate hikes by using a **cap** or against declines by using **floors**. In certain cases, caps can be combined with floors to form **collars.**

continued on page 9

ı the rates in force on the capital ıarkets in Canada. Financial ıstitutions set deposit interest rates ı line with Canadian government ınd rates.

inancial institutions also have ccess to other financial vehicles: ıstitutional deposit certificates, NHA ırtgage-backed securities, ırporate bonds and debentures. This ın take the form of a proposal call ıen the market opens and can ıidly produce millions of dollars in ıds.

Depending on the financial vehicles ıey use, financial institutions need a ıfit margin ranging from 1.25 per ıt to 2.00 per cent. This number ıresents the difference between the ırtgage loan rate and the cost of ıds for a given period of time.

Table 2: Financial Institution A – Use of a SWAP

Assets	Less than a year	1-3 years	3-5 years	5 years+	Total
SWAPS	**$1,000,000,000**	–	–	–	**$1,000,000,000**
rate of return	**5.90%**	–	–	–	**5.90%**
Total Assets	$1,947,547,471	$2,351,863,993	$4,366,986,762	$1,333,601,773	**$10,000,000,000**
rate of return (%) before SWAP	7.09%	7.30%	9.11%	10.11%	**8.43%**
rate of return (%) after SWAP	–	–	–	–	**8.20%**
SWAPS	–	–	**$1,000,000,000**	–	**$1,000,000,000**
rate of return	–	–	**8.03%**	–	**8.03%**
Total Assets	$3,503,497,057	$3,945,895,259	$2,056,827,822	$493,779,863	**$10,000,000,000**
rate of return (%) before SWAP	5.65%	6.50%	7.66%	8.15%	**6.52%**
rate of return (%) after SWAP	–	–	–	–	**6.66%**
Value to Match	($555,949,585)	($1,594,031,266)	$253,331,119	$839,821,911	–

INDICATORS OF MORTGAGE LENDING ACTIVITY

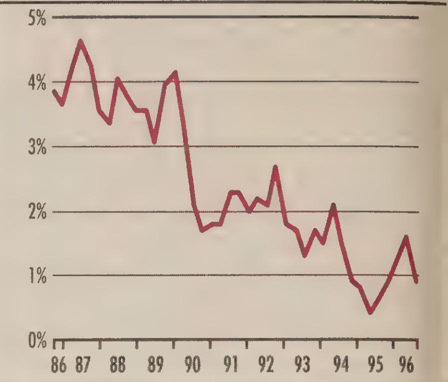
Mortgage Credit Outstanding[1] (in millions of dollars)

	1994	1995	95Q4	96Q1	96Q2	96Q3[e]
TOTAL	324,116	335,749	339,490	343,412	348,799	351,932
% change	6.6	3.6	0.9	1.2	1.6	0.9
Banks	172,807	185,663	189,489	193,550	198,207	200,728
Trust Co.	49,438	45,672	44,670	43,515	43,122	42,741
Caisses & CO-OP	45,258	47,176	47,825	48,260	48,996	49,969
Life Ins. Co.	21,644	22,113	22,148	22,561	22,821	22,787
Pension Funds	8,186	8,045	7,903	7,778	7,637	7,549
Fin. & Loan	26,783	27,080	27,454	27,747	28,016	28,159

(1) Seasonally Adjusted Data (e) Estimate

Sources: Bank of Canada; CMHC. *CMHC – MAC 1996*

Quarterly Residential Mortgage Credit Growth



Sources: Bank of Canada; CMHC. *CMHC – MAC 199*

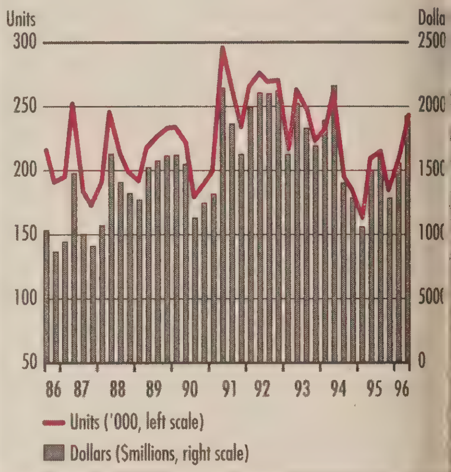
NHA and Conventional Loans Approved

		1993	1994	1995	95Q3	95Q4	96Q1	96Q2
TOTAL	$ millions	71,665	65,116	54,575	16,131	12,837	15,553	19,237
	Units	893,016	764,042	676,640	195,788	158,780	188,853	230,004
NHA	$ millions	25,220	25,944	22,219	6,334	4,938	6,928	7,740
	Units	287,618	306,238	277,205	77,798	62,522	83,925	94,534
Conventional	$ millions	46,445	39,172	32,356	9,797	7,899	8,625	11,497
	Units	605,398	457,804	399,435	117,990	96,258	104,928	135,470
By Type of Lender								
Banks	$ millions	42,622	40,352	34,902	10,412	8,440	10,516	12,870
	Units	498,332	460,775	405,220	118,062	100,138	123,072	145,158
Trust Co.	$ millions	14,553	10,593	6,992	1,961	1,486	1,750	2,208
	Units	188,135	113,370	80,706	23,158	16,919	20,662	23,997
Life Ins. Co.	$ millions	4,624	4,061	3,742	975	706	822	992
	Units	78,175	62,708	71,203	19,096	13,326	12,375	17,530
Others	$ millions	9,866	10,110	8,939	2,783	2,205	2,465	3,167
	Units	128,374	127,189	119,511	35,472	28,397	32,744	43,319

(1) Not Seasonally Adjusted

Source: CMHC. *CMHC – MAC 1996*

NHA and Conventional Approvals



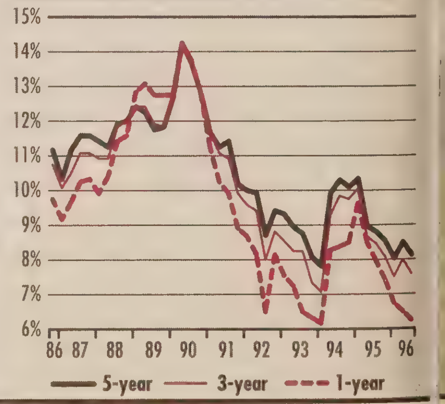
Source: CMHC. *CMHC – MAC 19*

Mortgage Rates (%) (Average of period)

	1994	1995	95Q3	95Q4	96Q1	96Q2	96Q3
1-Year Mortgage Rate	7.83	8.38	7.96	7.42	6.75	6.50	6.25
3-Year Mortgage Rate	8.99	8.81	8.46	8.08	7.50	8.00	7.59
5-Year Mortgage Rate	9.53	9.16	8.80	8.53	8.03	8.50	8.13

Sources: Bank of Canada; CMHC. *CMHC – MAC 1996*

Mortgage Rates



Source: Bank of Canada. *CMHC – MAC 1*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 218-3305.

Mortgage Market Trends is a quarterly publication. To order, in Canada call 1-800-668-2642, fax 1-800-245-9274; outside Canada, call 1-613-748-2003; fax 1-613-748-2016, or mail your order form to CMHC Information Products, 700 Montreal Road, Suite 1000, Ottawa, ON K1A 0P7.

To receive your subscription over the Internet, contact the Canadian Housing Markets Online Service (CHMOS) at 1-888-246-6763 or visit our "House Page" at http://www.chmos-sd-mloc.ceds.com. $25.00 per issue.

Annual subscription (4 issues) $44. + GST – Order No. MMTSE. Single issue $11. + GST.
Cette publication est aussi disponible en français sous le titre SCHL – Tendances du marché hypothécaire – N° de commande : MMTSF.

ISSN 1188-4215
Printed in Canada

CMHC offers a wide range of housing-related information. For details, contact your local CMHC office.

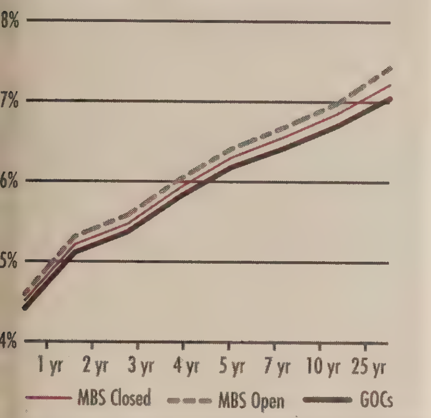
NHA MORTGAGE-BACKED SECURITIES

NHA MBS REVIEW

y Ali Manouchehri, Senior Economist – Capital Markets

A strategic analysis of the NHA MBS program in 1995 led to the formation of five joint CMHC-ndustry teams, each focusing on a particular issue. Following their review, the teams formulated a set f recommendations to improve these products.

HA Mortgage-Backed Securities ield Analysis – *September 30, 1996*



rce: Nesbitt Burns. CMHC – MAC 1996

HA Mortgage-Backed Securities Yield nalysis – *Market at 16:11, October 28, 1996*

GOC description				
upon te	Maturity Date	Type of MBS	Spread Basis Pts.	Yield on MBS
25%	09/98	Open	24	4.63%
50%	08/99	Open	24	5.17%
50%	09/00	Open	25	5.70%
50%	09/01	Closed	15	5.60%
50%	09/01	Open	25	6.01%
50%	12/06	Open	42	6.98%
00%	12/06	Closed	18	6.74%

rce: Telerate; average for MBS traders. CMHC – MAC 1996

NHA MBS PERFORMANCE IN THE THIRD QUARTER OF 1996

New issues exceeded half a billion dollars

A total of 46 new NHA MBS pools, amounting to $518.5 million, were issued in the third quarter of 1996, marking the second successive quarter in which the total value exceeded half a billion dollars. However, new issues fell short of the previous quarter's volume by 12.5 per cent. Nearly two thirds of the pools issued in this quarter, totaling $340.3 million, were single residential pools, 46 per cent more than in the second quarter of 1996. Only four multiple residential pools, amounting to $40.1 million, were issued in the third quarter of 1996. Issues of social housing pools also declined, to $118.4 million from $220.8 million in the previous quarter.

Low profitability for issuers combined with a steep yield curve continued to hamper MBS funding of mortgages. Profitability was reduced by the low spread between the five-year posted mortgage rate and the comparable Government of Canada bond (GOC) rate, which remained in the 145-150 basis points range. An average of 146 basis points has prevailed since 1994. Discounts from posted mortgage rates by various lenders put additional pressure on MBS issues. The MBS-GOC spread shrank by six basis points for prepayable pools with penalty interest payment, by seven basis points for prepayable pools without penalty, and by three basis points for non-prepayable pools.

NHA MBS PROGRAM POISED FOR CHANGE

Cost effectiveness was identified as critical to the success of the NHA MBS program. One team suggested that the cost of MBS products could be reduced if the application fee were reduced and the timely-payment guarantee premiums were eliminated (with the guarantee retained). The team also proposed several ways to achieve this objective.

To broaden the NHA MBS program, one team reviewed the proposal to include **conventional and non-NHA mortgages** in the MBS pools. It also recommended tying the guarantee fees to pool and issuer risks.

CMHC's role in facilitating multi-issuer pools was considered another important factor in the success of the NHA MBS program. The team examining this issue recommended that CMHC facilitate multi-issuer pools on an exchange basis, either directly or through a designated agent. CMHC or its agent would issue the pools, while mortgage originators would continue to service the mortgages they bring into the pools. Mortgage originators would exchange their mortgages for an equivalent value in MBS certificates in the pool. They could then retain the certificates or sell them.

Another recommendation dealt with **CMHC's role in the program, including the provision of information** to interested parties and assurance to the investment community. The team examining this issue identified a number of

continued on page 10

LENDERS PAID FULL VALUE TODAY FOR NEW NHA MBS ISSUES

by Michael Bowen, Vice-President and Director, Nesbitt Burns Inc., Securitization and Structured Finance

Ten years ago, capital market pioneers were preparing to underwrite the first NHA MBS issue. The methodology devised at the time to price Pool #96400015 was relatively simple and consistent with how mortgages were bought and sold between lenders. Today, the cash flow to be expected from a pool of single-family-unit mortgages is better understood and more accurately measured. The result: higher prices paid for NHA MBS pools to the benefit of all issuers. The following article describes the specific changes that have occurred.

NHA MBS were first bought from issuers and traded among investors and investment dealers at prices and yields that assumed mortgagors would make their scheduled monthly payments through to term. Little was known then of prepayment, foreclosures or the number of homes that might be sold prior to maturity – factors which result in early principal repayments to NHA MBS investors. The Government of Canada bond (GOC) that a pool's yield was measured against (the difference in yield being referred to as the "spread") was the issue closest in maturity date. For pools of mortgages with terms longer than 10 years, however, shorter maturity date GOCs were used as benchmarks, since the amortization effect was more pronounced. Finally, as part of the underwriting process, a pool's coupon rate was set so as to create a $2.00 price discount at prevailing yields – a discount that most issuers found expensive to finance.

Not until 1993, following the successful underwriting of Canada's first CMO (collateralized mortgage obligation), were new-issue NHA MBS pools priced with prepayments projected as part of their expected monthly cash flows. Pools experiencing, or expected to experience, high prepayments due to heavy refinancing had been trading in the secondary market with extreme prepayment assumptions since 1992. The new issue prepayment assumptions formed in 1993 have changed little in three years. Today, five-year pools are priced assuming a 1 per cent per annum partial prepayment rate and a 4 per cent per annum liquidation rate (LQR). Both rates are assumed constant through to maturity and applied monthly.

Initially, the move to incorporate modest prepayment assumptions did not have an appreciable impact on the prices paid by underwriters for new issues. The one exception was where the coupon rate had to be set well below prevailing yields, i.e., where the price represented a deep discount to par. For these pools, the effect of accelerating the principal cash flow increased prices by a measurable amount. Not until 1994, when two further changes to NHA MBS pricing methodology were debated and then accepted by the market, did all new issues, regardless of coupon, benefit from the evolution of new issue prepayment assumptions.

The first change was to measure prepayable pools, after adjusting their cash flow for prepayments, against GOCs of equivalent modified duration rather than maturity. For five-year pools, the GOC used for pricing became the issue maturing in 4.25 years. Since the yield curve is normally sloped positively, where longer maturity bonds yield more than shorter maturity bonds, this shift in benchmarks has improved prices paid for five-year pools by approximately $0.40 in today's market.

The second change was to make an explicit assumption about the amount of penalty interest an investor would receive from pools that passed through such collections, as a function of expected prepayments. For five-year new issues, assuming a 4 per cent LQR, the penalty interest payment (PIP) stream is valued at approximately 4 basis points in yield, or $0.15 in price. Furthermore, the $2.00 price discount has been eliminated, with the strong demand for new pools and current low nominal interest rates.

These changes in pricing methodology, combined with refinements to the formulas that produce the projected monthly cash flows – which include accurately defining amounts of principal that mature prior to a pool's final maturity date– have improved the pricing of secondary and new NHA MBS issues alike. Mortgage lenders are encouraged to study the benefits in order to ensure that they are in fact pursuing the best financing solution. The NHA MBS program may offer some surprising advantages. ■

NHA Mortgage-Backed Securities Third Quarter Issues

July 1996 to September 1996

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: July 1996						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-093	FIRST HERITAGE SAVINGS CR. UN.	10,017,860.38	6.750	July 1, 2001	7.46	21.28
96-412-101	M.R.S. TRUST COMPANY	6,011,345.00	7.125	July 1, 2001	8.15	22.41
96-412-119	BAYSHORE TRUST COMPANY	6,989,452.53	7.125	July 1, 2001	7.96	22.03
96-412-127	BAYSHORE TRUST COMPANY	6,992,880.56	7.000	September 1, 2000	8.00	24.22
NHA-INSURED MAKRET RESIDENTIAL POOLS (MIXED)						
96-500-343	THE EQUITABLE TRUST COMPANY	10,229,293.57	7.375	July 1, 2006	8.40	23.76
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-701-032	THE EQUITABLE TRUST COMPANY	2,066,259.57	7.375	July 1, 2006	8.32	20.85
96-701-040	FIRSTLINE/CIBC BANK	5,116,946.84	7.750	September 1, 2006	8.76	22.48
96-700-992	HONGKONG BANK OF CANADA	5,597,426.75	6.500	May 1, 2001	7.32	20.80
96-701-008	HONGKONG BANK OF CANADA	5,938,234.31	6.000	June 1, 1999	7.11	22.24
97-701-016	HONGKONG BANK OF CANADA	4,308,906.25	7.000	July 1, 1998	7.84	20.99
96-701-024	HONGKONG BANK OF CANADA	10,550,022.66	7.250	July 1, 2000	7.98	19.89
SOCIAL HOUSING POOLS						
99-007-338	CIBC MORTGAGE CORP.	11,469,195.00	6.750	July 1, 1999	7.29	35.00
99-007-346	BANK OF NOVA SCOTIA	5,041,663.88	6.625	July 1, 2001	7.31	30.15
99-007-304	TORONTO-DOMINION BANK	25,477,818.89	6.000	July 1, 1999	6.80	31.52
99-007-312	BANK OF MONTREAL	10,114,558.17	6.250	July 1, 1999	6.80	29.90
99-007-320	TORONTO-DOMINION BANK	21,736,471.00	7.000	July 1, 2001	7.59	35.00
MONTH OF ISSUE: August 1996						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-143	FIRST HERITAGE SAVINGS CR. UN.	4,600,591.46	6.500	August 1, 1999	7.47	23.33
96-412-135	M.R.S. TRUST COMPANY	4,506,605.16	6.875	August 1, 2001	8.16	23.00
96-412-150	FIRST HERITAGE SAVINGS CR. UN.	9,553,951.31	6.750	August 1, 2001	7.83	22.72
96-412-192	VANC. CITY SVGS. CREDIT UNION	84,225,243.56	6.500	May 1, 2001	7.41	21.47
96-412-200	VANC. CITY SVGS. CREDIT UNION	36,854,916.37	6.000	May 1, 1999	7.04	21.85
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-350	THE EQUITABLE TRUST COMPANY	9,475,713.50	6.625	August 1, 2001	7.78	21.81
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-564	PEOPLES TRUST COMPANY	13,296,195.29	7.125	August 1, 2001	7.88	25.58
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-701-057	HONGKONG BANK OF CANADA	28,245,729.92	6.250	July 1, 2001	7.33	21.11
96-701-099	FIRSTLINE/CIBC BANK	2,763,516.45	7.250	October 1, 2006	8.79	24.06
96-701-065	HONGKONG BANK OF CANADA	14,713,847.41	7.000	August 1, 2000	7.91	20.74
96-701-073	HONGKONG BANK OF CANADA	3,897,581.62	6.000	August 1, 1998	7.69	20.49
96-701-081	FIRSTLINE/CIBC BANK	2,466,626.58	6.875	October 1, 2003	8.53	21.89
96-701-107	FIRSTLINE/CIBC BANK	2,670,736.02	7.500	August 1, 2021	8.98	27.42
SOCIAL HOUSING POOLS						
99-007-361	TORONTO-DOMINION BANK	23,756,048.00	6.750	August 1, 2001	7.37	35.00
99-007-379	CIBC MORTGAGE CORP.	11,586,873.00	6.500	August 1, 1999	7.07	35.00

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: September 1996						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-176	M.R.S. TRUST COMPANY	4,540,099.20	6.500	September 1, 2001	7.96	22.96
96-412-168	SUN LIFE TRUST COMPANY	14,006,240.51	6.625	September 1, 2001	7.85	24.53
96-412-218	THE EQUITABLE TRUST COMPANY	5,502,368.11	6.750	September 1, 2001	7.82	22.48
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-572	PEOPLES TRUST COMPANY	5,849,934.84	6.875	September 1, 2001	7.68	24.97
96-600-598	FIRSTLINE/CIBC BANK	15,996,363.39	6.625	September 1, 2001	7.64	25.05
96-600-580	PEOPLES TRUST COMPANY	4,985,602.00	7.250	September 1, 2006	7.87	25.00
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-701-156	FIRSTLINE/CIBC BANK	5,006,162.15	7.250	November 1, 2006	8.62	21.22
96-701-123	HONGKONG BANK OF CANADA	23,055,472.38	7.250	September 1, 2000	7.90	20.37
96-701-164	FIRSTLINE/CIBC BANK	2,321,576.31	7.000	November 1, 2003	8.20	25.48
96-701-149	FORTIS TRUST	3,863,147.35	6.500	November 1, 2000	8.75	21.37
96-701-131	HONGKONG BANK OF CANADA	5,740,859.27	6.000	September 1, 1999	7.40	22.28
96-701-115	HONGKONG BANK OF CANADA	18,180,618.31	6.500	August 1, 2001	7.56	21.98
SOCIAL HOUSING POOLS						
99-007-353	PEOPLES TRUST COMPANY	2,411,539.21	6.375	November 1, 2001	7.26	21.60
99-007-395	TORONTO-DOMINION BANK	3,554,556.00	6.750	September 1, 2001	7.30	35.00
99-007-387	TORONTO-DOMINION BANK	3,253,000.00	6.125	September 1, 2001	6.74	33.53

MORTGAGE RATES: ARE THEY REALLY LOW?

by Ali Manouchehri, Senior Economist – Capital Markets

Nominal mortgage rates have declined several times this year to reach levels not seen since 1965. However, real mortgage rates continue to remain high by historical standards.

Nominal mortgage rates declined substantially

Since April 1996, mortgage rates for all terms have declined steadily, and have reached their lowest level in 31 years. Between April 21 and November 6, one-year mortgage rates dropped by nearly 2.0 per cent while the five-year rate fell by 1.5 per cent. Lower mortgage rates are good news for home buyers, builders, real estate agents, and lenders since reduced home ownership costs stimulate housing markets and many activities related to them. Declines in the five-year mortgage rate since last April have reduced mortgage costs by $1,275 per year on a $100,000 mortgage amortized over 25 years.

The decline in mortgage rates is closely linked to the cost of funding mortgages. Mortgages compete for investment funds with government bonds of similar terms, so bond yields provide a good benchmark for mortgage costs. Canadian bond yields have been reduced in recent months by a variety of factors: an improved balance in the current account, the rising Canadian dollar, low inflation, and shrinking public deficits. With lower bond yields, lending institutions can fund mortgages at lower rates and thus reduce their mortgage rates.

Narrower mortgage-bond spreads

Since early 1994, strong competition among lenders in the mortgage market has reduced the spread between mortgage rates and Government of Canada bond yields for periods of one, three and five years to between 1.4 per cent and 1.6 per cent. Chart 2 below demonstrates this trend.

Real mortgage rates still high

Real mortgage rates can be calculated by subtracting an appropriate inflation indicator, such as the percentage change in Consumer Price Index, from nominal mortgage rates. With this calculation, we can see that real mortgage rates remain high by historical standards, despite falling nominal interest and mortgage rates. In fact, the real five-year mortgage rate is now higher than it was in the decades following the 1950s and is almost twice as high as in the 1970s.

continued on page 10

Chart 1: Nominal 5-year Mortgage Rate 1951-1996

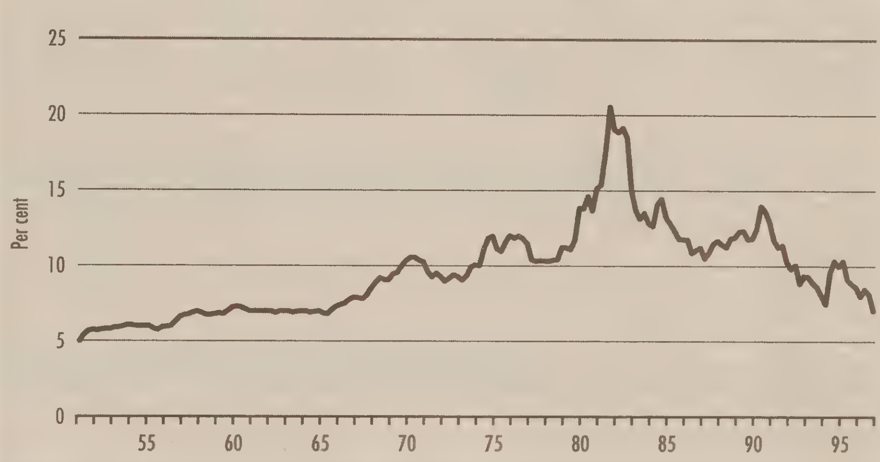
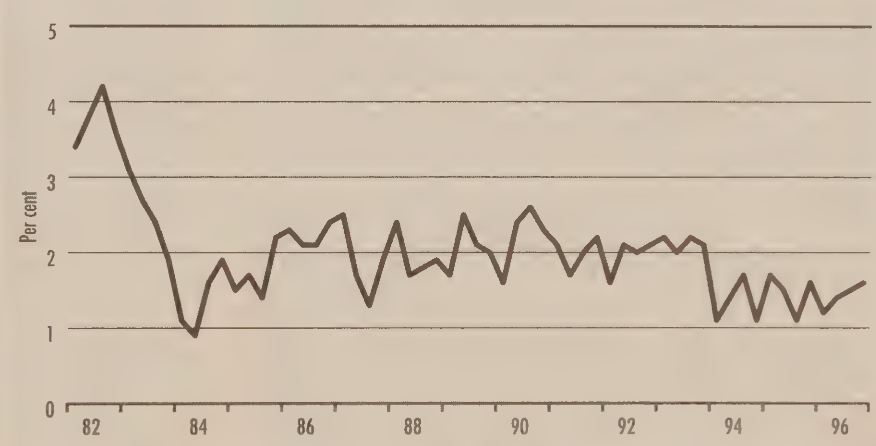


Chart 2: Nominal 5-year Mortgage-Bond Spreads1982-1996



NHA MORTGAGE-BACKED SECURITIES

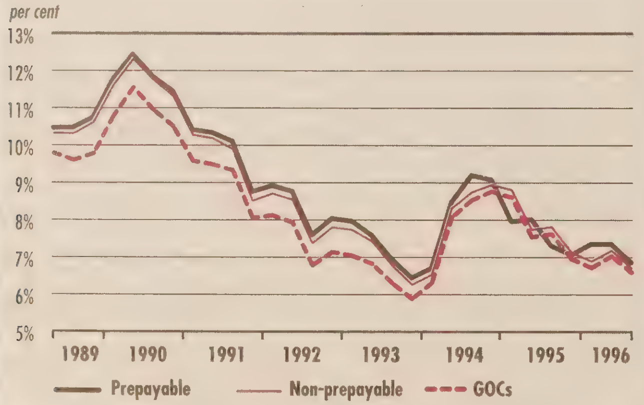
(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

		1994	1995	95Q4	96Q1	96Q2	96Q3
OUTSTANDING AMOUNT (END OF PERIOD)							
TOTAL	$million	17,541.8	17,133.5	17,133.5	16,600.9	15,944.2	15,360.0
	Units	1,507	1,498	1,498	1,466	1,431	1,401
Residential, single (with PIP)[1]	$million	8,300.9	7,669.5	7,669.5	7,432.4	6,902.4	6,577.5
	Units	861	838	838	816	795	772
Residential, single (no PIP)	$million	610.5	714.6	714.6	733.0	800.7	926.2
	Units	53	80	80	87	99	115
Residential, multiple	$million	864.1	1,159.0	1,159.0	1,193.6	1,301.0	1,336.3
	Units	24	40	40	43	50	53
Social housing	$million	7,522.1	7,374.5	7,374.5	7,040.4	6,735.9	6,314.2
	Units	541	510	510	490	458	432
Mixed	$million	244.2	215.8	215.8	201.5	204.2	205.8
	Units	28	30	30	30	29	29
ISSUES (TOTAL OF PERIOD)							
TOTAL	$million	3,719.7	1,557.3	446.2	261.9	592.5	518.5
	Units	290	162	43	27	36	46
Residential, single (with PIP)	$million	1,542.9	415.4	106.3	103.9	141.2	193.8
	Units	137	71	11	7	8	12
Residential, single (no PIP)	$million	620.2	141.8	33.7	30.6	91.2	146.5
	Units	53	27	9	7	12	18
Residential, multiple	$million	318.0	330.7	165.4	42.8	117.9	40.1
	Units	10	18	9	4	7	4
Social housing	$million	1,189.6	656.9	132.8	84.7	220.8	118.4
	Units	84	43	12	8	8	10
Mixed	$million	48.9	12.4	8.1	0.0	21.4	19.7
	Units	6	3	2	1	1	2
YIELDS (5-YEAR MATURITY, %)							
MBS Prepayable (with PIP)		8.34	8.09	7.31	7.07	7.36	6.86
MBS Prepayable (no PIP)		–	8.16	7.39	7.11	7.41	6.91
MBS Non-prepayable		8.15	7.89	7.15	6.91	7.20	6.73
MBS MMUF		8.26	7.97	7.23	6.98	7.26	6.77
Mortgage rates		9.53	9.16	8.53	8.03	8.50	8.13
GOCs		7.94	7.70	6.97	6.74	7.05	6.61
SPREADS OVER GOC (5-YEAR CONSTANT MATURITY, %)							
Prepayable (with PIP)		0.40	0.40	0.34	0.33	0.31	0.25
Prepayable (no PIP)		–	0.46	0.41	0.37	0.36	0.29
Non-prepayable		0.21	0.19	0.17	0.17	0.15	0.12
MMUF		0.32	0.28	0.25	0.24	0.21	0.15
Mortgage Rates		1.60	1.46	1.56	1.29	1.45	1.52

(1) PIP stands for Penalty Interest Payments   Not seasonally adjusted data.

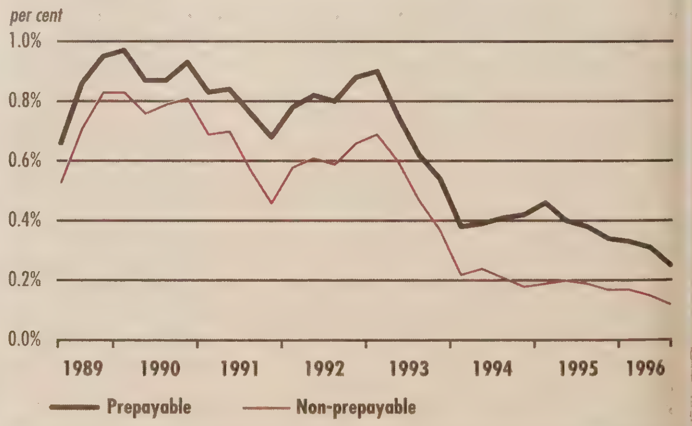
Sources: Nesbitt Burns; CMHC.   CMHC – MAC 199(

Selected Interest Rates
(5-year maturity)



Source: Nesbitt Burns.   CMHC – MAC 1996

Spreads over GOCs
(5-year maturity)



Source: Nesbitt Burns.   CMHC – MAC 199

Interest rate SWAPs are exchanges of interest rate payments between two parties. One of the two parties agrees to receive interest payments on the basis of a fixed rate (using a nominal reference rate) and the other agrees to receive interest payments on the basis of a variable interest rate.

Chart 1 shows how an interest rate SWAP might affect the profit margin of the financial institution presented in the above example. We assume that this institution has more deposits than short-term investments, as is usually the case. An interest rate SWAP allows this institution to protect its profit margin and to even increase it when rates increase sharply.

Table 2 shows what happens when financial institution A receives payments on a variable rate basis and pays a fixed rate to financial institution B. It should be pointed out that there is no exchange of capital in a SWAP transaction. The figure of one billion dollars is used exclusively to calculate the net interest to be paid between the two parties. Chart 2 illustrates the net exchange of interest between A and B. In this case, financial institution A pays institution B a net amount of $10.7 million every six months. As interest rates increase, A pays less to B; once the rates reach a certain threshold, the roles reverse and B pays net interest to A.

Unlike financial securities, an interest rate SWAP involves two or more parties in a transaction. The fact that there are more than two parties involved in the use of a derivative to cover an unmatched situation raises some credit risks. The possibility that one of the two parties may not be able to meet its obligations constitutes a major risk in derivative products. In an interest rate SWAP transaction, the parties ensure that there is no risk that one of the parties end will be unable to honour its obligations. This is why a number of interest rate SWAP transactions involve third parties which represent an additional guarantee to reduce the risk of non-payment to a minimum. In Canada, the Office of the Superintendent of Financial Institutions monitors this type of market very closely to see that such situations do not occur.

Influence of derivatives in setting mortgage rates

As demonstrated above, derivatives have a positive effect on the management of an institution's loan portfolio. First, they make it possible for these institutions to come up with inexpensive alternatives when faced with matching problems on their balance sheets. Second, in certain cases the derivatives can improve the return for portfolios held by financial institutions. Table 3 presents historical data on the return spread between 5-year mortgage rates and the cost of supplying funds by financial security category. It should be pointed out that this spread represents the gross profit margin for financial institutions, that is, the difference between their lending rate and their borrowing rate. Thus, the larger this spread, the greater the profit margin for financial institutions.

Since 1989, it has been more advantageous for financial institutions to use interest rate SWAPs to cover matching problems than to issue corporate bonds. This has not always been true for NHA mortgage-backed securities. ■

Table 3: Profit Margin on Five-Year Mortgage Loans

	NHA Mortgage-Backed Securities	SWAPs	Issuing of Corporate Bonds
1989	1.36	1.20	1.17
1990	1.46	1.36	1.28
1991	1.22	1.31	0.81
1992	1.16	1.36	0.45
1993	1.54	1.75	0.95
1994	1.20	1.31	0.88
1995-96	1.06	1.26	0.88

Sources: Bank of Canada, National Bank of Canada, CMHC and Reuters.

Chart 1: Impact of SWAP on Balance Sheet for Fictitious Financial

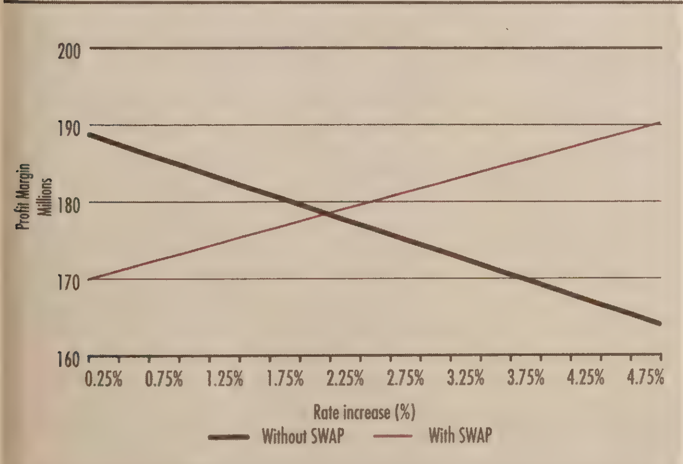
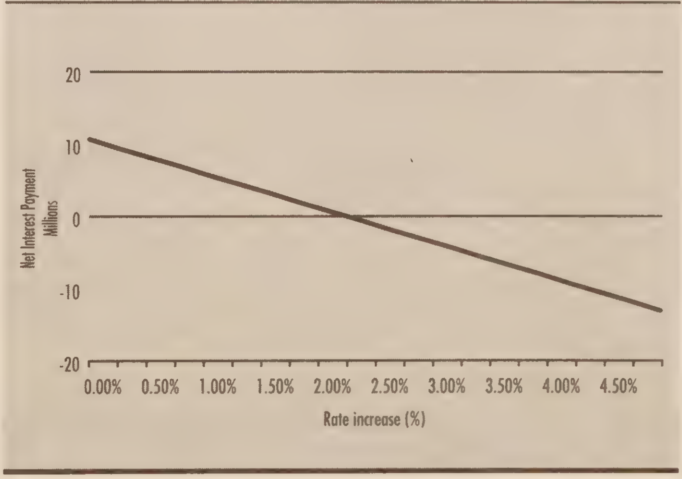


Chart 2: Net Semi-Annual Interest Payment



LONG-TERM MORTGAGES MAKE A COMEBACK

by Mario Vachon, Senior Account Manager, NHA MBS

Everyone wishing to take out or renew a mortgage has to decide which term to choose and at what interest rate. The dilemma usually boils down to a choice between a short- or long-term loan. In today's low-rate environment, the latter looks increasingly attractive.

For the past 25 years, the minimum and maximum terms offered to borrowers have generally been six months and five years. This range has become the norm to the extent that, for most Canadian borrowers today, the five-year mortgage is synonymous with a long-term loan, while one year is seen as a short-term one. However, these preconceptions may be changing.

In the 1960s, virtually all mortgages were for a 25-year term. But changes in the economy over the past 25 years — factors such as inflation and fluctuations in the value of the Canadian dollar — have made lenders reluctant to offer truly long-term loans, and many consumers opt for a short-term borrowing strategy. For the past 15 years, for example, borrowers who chose short term loans found this strategy to their financial advantage.

The tide may be turning. The decline in interest rates over the past several months is causing many borrowers to have second thoughts about the short term strategy. Mortgage rates are at their lowest levels in more than 30 years, and the downward pressure is likely to continue over the next few months. Concerned that rates may go up again in the future, many people may consider locking in for the long term, the pattern of borrowing common in the sixties.

Already some borrowers are adopting this strategy. In 1996, the average term for new loans has been 4.25 years compared with 3.9 years in 1995.

Moreover, the NHA MBS program has facilitated the shift to longer term loans. Due to securitization, the institutions participating in this program no longer face the risk of matching cost of funds to lendings and can thus offer a wider range of mortgage products at various terms. Since the early 1990s, some 266 mortgage pools (made up solely of single-family-unit mortgages with terms of six years or more) have become NHA MBS, for a total value of $1.8 billion.

Most chartered banks and trust companies are now offering homeowners seven, ten and twenty-five year terms, with conditions just as flexible as the five-year products (transferable, prepayment possibility, etc.). Consumers are not yet aware of these longer term options because, in the public mind and in virtually all market publicity, the five-year product still prevails.

It is highly likely that, as interest rates decline over the next few months, now consumers will look more closely at their options and choose loans of five, seven, ten, or even 25 years. An increasingly wide range of products at various rates will become more available, which is good news for today's borrowers. ■

NHA MORTGAGE-BACKED SECURITIES *cont'd*

initiatives for CMHC to undertake to provide the investment community with a higher level of confidence in the NHA MBS program.

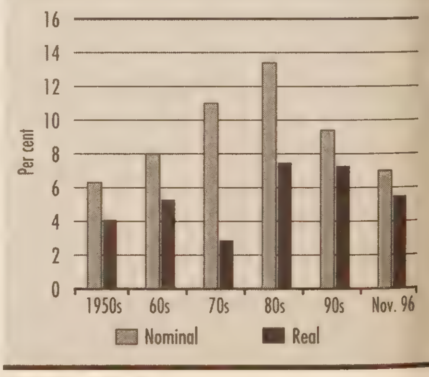
The strategic analysis recommended changing the basis of cash flow to the investors from the current modified pass-through to **actual pass-through**. With modified pass-through security, the current NHA MBS program is designed to minimize cash flow variability to investors, but it requires extensive accounting and administrative efforts. While it liked the actual pass-through model, the review team did not recommend it. The current pools must retain the modified pass-through technique, and a new system for future pools was viewed as too expensive in light of forecast volumes over the next few years.

These recommendations are expected to yield products better suited to the needs of the investment community, to improve existing products, and to result in stronger partnerships for the expansion of the NHA MBS market when economic conditions are ripe for more active use of the NHA MBS program. ■

REAL MORTGAGE RATES *cont'd*

Real mortgage rates are still high because our low inflation rate since 1991 and the other positive factors mentioned above have not been factored into nominal rates. As financial markets gradually take Canada's strong fundamentals into account, real interest and mortgage rates could drop further. ■

Chart 3: Real and Nominal 5-year Mortgage Rates



Sources: CMHC, Bank of Canada.

9643